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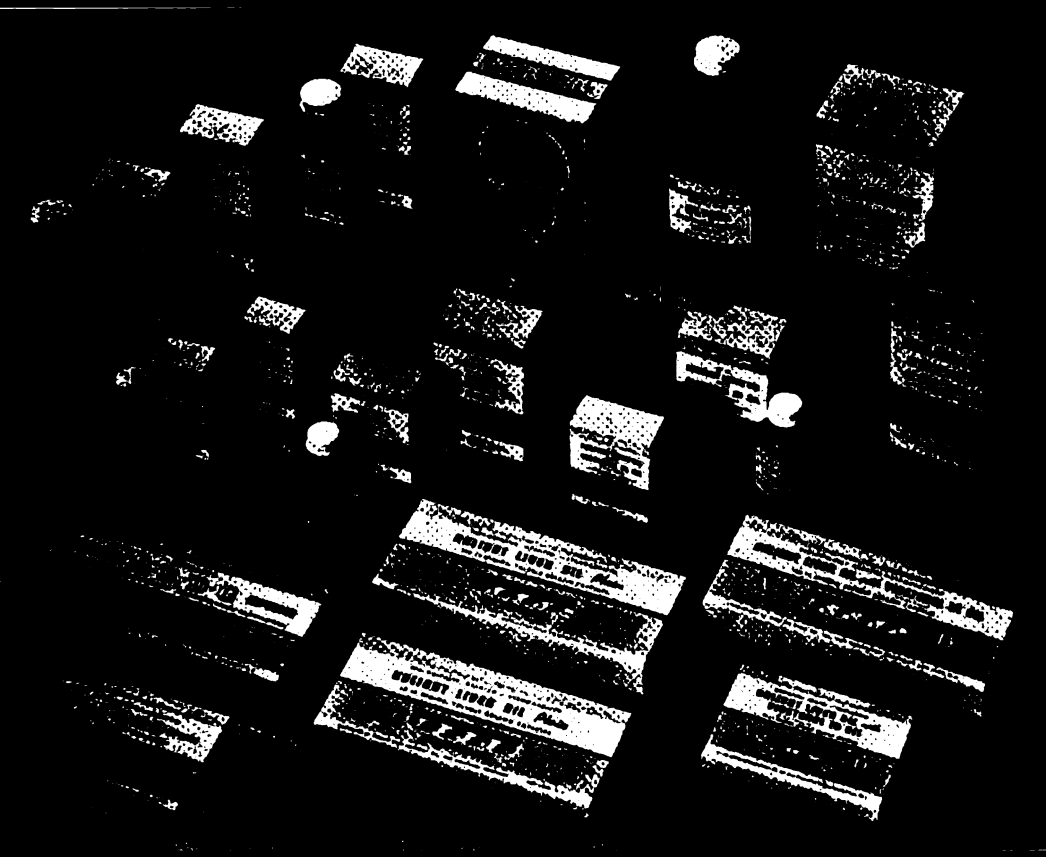

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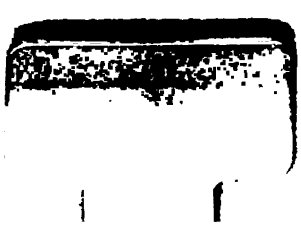

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MARKETING SERIES NUMBER 41

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THE ECONOMICS OF PACKAGING

Informative Labeling, Packaging Costs

BY

FRED C. HECHT
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THE TEXAS COMPANY

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A CASE HISTORY OF INFORMATIVE LABELING

By FRED C. HECHT
Manager, Informative Label and Package Division
Sears, Roebuck and Co.

INFORMATIVE labeling is a natural outgrowth of the present trends in merchandising. In fact, the "Case History of Informative Labeling" must be taken from the history of merchandising. Going even further into this subject, we find that the basic causes for the labeling movement are deeply rooted in the development of the country itself.

It wasn't very long ago, in the point of time, that life in this country was almost entirely local in its scope. The population was predominantly rural. The horse provided the only means of transportation. There were a few struggling cities clinging to the Atlantic seaboard, with ocean shipping and fishing their only excuse for existence. Merchandising was confined to the purchase and sale of basic supplies, people created their own implements and clothing, and there was no demand for the ready-made. The name of the distributor, dealer, or trader was the label of this early day.

The country grew up and expanded almost overnight. There was the mass movement of populations westward. Small settlements became established cities. The land had been conquered, and the people settled down to live on it. A few years passed and that venerable merchandising institution, "the general store," appeared, with its bolts of calico, cracker barrel, and squat wood stove. In some cities the "well-appointed department store" made its appearance, with tall narrow doors, gas lights, and the owner who personally greeted you at the entrance. Business was still local in character—little interstate business, as our Supreme Court sees it today. The name and integrity of the local merchant,

THE AUTHOR Fred C. Hecht has had a wide and varied experience in the merchandising field—10 years with Best & Co., in New York, from stock boy to merchandise manager; five years with Allied Stores, Inc., in Baltimore, from merchandise manager to operating a retail store.

Mr. Hecht came to Sears, in Chicago, two years ago, and for one year was occupied with special assignments for Mr. T. V. Houser, who was then General Merchandise Manager. In 1939 Mr. Hecht became Manager of Sears' Informative Label and Package Division, and Merchandise Comparison and Inspection Division. When he assumed his new post, there were labels in use but few informative labels. Now Sears is recognized as one of the leaders in this field, with hundreds of Infotags (Sears' name for informative labels) in use on their merchandise. This organization has an elaborate Informative Label Program that is paying big dividends in better selling and better consumer buying.

Mr. Hecht has been very active in trade groups, helping to put across the importance of informative labeling as a way to better merchandising, and has presented papers before conventions of the National Retail Dry Goods Association, American Home Economics Association, National Better Business Bureau, and American Retail Federation.

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plus a very few brand names, were the only standards of quality. Every sale was a separate transaction, with the understanding, "Caveat Emptor." Labeling at this stage was rather gaudy, with emphasis on the pictorial aspects of brand names rather than on the goods involved.

The influx of "Big Business" followed the first World War. Competition rose to a new high pitch, and merchandise literally flowed into interstate commerce. Advertising dumped brand names and ballyhoo into the lap of the housewife in an ever-mounting heap. Her buying was becoming more complex, and as far as she was concerned, confusion reigned supreme. Merchandise that was produced on one side of the continent now entered the showcases on the other side. New brand names became too numerous to mean much of anything. Labels frequently included extravagant claims. Each article was the most colossal, stupendous, and wonderful product on the market.

THE CONSUMER MOVEMENT

It has been said that the consumer movement was born out of curiosity by suspicion. There was everything present in this era to stimulate both curiosity and suspicion. Industry had taken the production of foods and fabrics out of the homemakers' hands. Women whose mothers had baked the family bread and woven its table linen wanted to know how bakers handled the staff of life, and, particularly, how much the loaf actually weighed. They wanted to know what was in the fabrics sold across the counter.

Women are compelled to rely completely on commercial resources for knowledge of quality and price of goods and, thus, for the enjoyment their family can get from them. Whether the family with a given income can procure a higher or lower standard of living today no longer depends upon how good a producer the housewife is, but primarily how good a buyer she is. The housewife's buying, thus, is her peculiar type of producing.

Technical changes have affected every field of consumption. Not only is the housewife's knowledge insufficient to judge relative value of different offerings, but also, in many cases, it is inadequate to enable her to make the best use of the products produced by the new technological methods. This has caused her to look about for help and for advice. So far, even in this present era, she has received *little* from business.

Speaking of help from business, David R. Craig, President of the American Retail Federation, says that retailers can be classified according to their consumer movement beliefs, into at least three types:

> The first group is composed of merchants who believe that consumers do not exist. There are, they say, only customers; consumers are like leprechauns or pixies—you have to have a special kind of faith before you can acknowledge them. These merchants think that consumers as an organized group aware of its needs and having its own purposes are the figment of somebody's imagination—possibly somebody who is trying to keep a job.
>
> The second type of merchant admits the existence of the consumer movement but does not take it seriously, believing that consumers are

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boobs—theoretical busybodies without a practical thought in their heads.

The third group realizes the existence of an articulate consumer movement. They recognize that its stated principles arise out of real economic need and want to and are doing something about it.

SEARS, ROEBUCK LABELS

Sears, Roebuck and Company feels it is of this third type and that is why we started our program of informative labeling. Our company came into being as a mail order firm during the "cracker-barrel era." Our labeling then was typical of the times. We have some prized samples of this old-fashioned labeling, noteworthy among which is one for "*Pastoral*" cotton-check suiting. This label is an historic example of that period when labels artfully illustrated what the merchant meant by his brand name. Everything seems to appear on the label except information about the merchandise! There is portrayed a nice, quiet, "*pastoral*" scene with a husky shepherd tooting his pipe in the foreground, a nonchalant collie dog at his feet, a winding path over hill and dale—all done in the Gay Nineties manner. It typifies what we today would analyze as poor design, poor layout, poor use of color—but it must have been quite the thing then.

Another label, for "*Tried and True*" ticking, developed during the decade following the first World War, goes so far as to tell the customer the blue and white striped ticking weighs 8 oz. to the yard—a surprising bit of accidental informative labeling for that time.

The life of accidental informative labeling was short. A purposeful program was embarked upon because the impetus was one that could not and should not be denied. We started making *Infotags* because we heard the customer wanted them. We heard she wanted information without pressure; wanted to be able to believe what she read; wanted education in good "buymanship"; wanted assurance that the answers to her questions given by manufacturers, advertisers, and merchants were bona fide information and not just "sales talks."

Our program was originally started because of these wants, because of this so-called consumer movement, then a minority perhaps, which through agitation, publicity and demands of one sort or another, was making the average customer more acutely conscious of all the facts she should have in order to make an intelligent selection of her own free choice, in keeping with her needs and pocketbook. Sears sympathized with this movement and we felt it good business to tell our customers specifically and accurately, by means of the informative label, what they were buying.

We ourselves have since discovered many merchandising benefits from these labels which are, in our opinion, of far more immediate importance than the eventual betterment of consumer relations. Besides the improvement in selling which we shall cover in detail later, *Infotags* in our company have been responsible for better buying. For example, the effort to write informative copy, showing the difference between 15-, 19-, and 25-cent items within a given line,

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sometimes reveals that there is no real need for all three items. Many lines ar thus being reduced, making for a better merchandising structure, greater con centration on fewer items, and more specification buying, with its consequen savings in cost to Sears, Roebuck and Co., and their customers. This is, in ou opinion, a very real contribution.

Last, but not least, the most important reason for the program is the valu of the *Infotag* in our stores, in providing uninformed and sometimes insuffi ciently trained salespeople with pertinent facts at the point of sale. The *Infota* is also a definite help in our stores in holding or clinching a sale when there i no salesperson in sight, or immediately available. It acts as a silent Sears sales man, attached to the merchandise, briefly eloquent, refusing to take "No, jus looking, thank you," for an answer.

You will be interested to know that the Informative Label and Packag Development Department at Sears is a division of the General Merchandising Office—not advertising, display, or public relations, but, merchandising. In formative labeling is a merchandising function at Sears because: (1) the mer chandising departments are most benefited by it, and (2) the interest in the movement at our company was originated by our Executive Vice President, Mr. D. M. Nelson (now on loan to the Government), who at that time was Vic President in charge of merchandising, and whose wholehearted support and tha of his successor, Mr. T. V. Houser, have made the labeling program a compara tively easy assignment.

Sears is in a unique and advantageous position, making an informativ labeling program a much simpler task than it would be for many companies. First of all, Sears, as you know, buys in tremendous quantities, so that the cos of the label on a particular item does not interfere seriously with its gross profit. Secondly, Sears buys a great deal of their merchandise to specifications, making the passing on of data about these specifications a relatively easy matter. Finally, Sears has one of the most completely equipped, privately-owned testing labora tories in the world, making the checking of manufacturers' claimed specifications possible and, consequently, we assume full responsibility for the statements made on the label.

WHAT IS AN INFOTAG?

At Sears we have an Eight-Point Program for making *Infotags*. Before taking up these eight points let us first have a common understanding of our subject matter. What is Sears' interpretation of an informative label? It is our *Infotag* and may be defined as any tag, sticker, folder, label, decalcomania, or package which gives the consumer facts—information that is correct, simple, easy to read and to understand; information like this: Will it shrink? Are the colors fast in washing, cleaning, sunlight? Is it water-repellent? Is it rayon, silk, cotton, wool? How long should it be expected to last? Will it rust, corrode, chip, peel, crack? How long will it give good service? How should it be lubricated, packed, cleaned?

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EIGHT-POINT PROGRAM

In planning each new informative label, as many of the eight points in our program as possible are incorporated in the copy. The specific merchandise, the retail selling habits, the consumer buying habits, and possible improvements over the established way of doing the job determine what points are applicable. The details of our eight-point program follow:

1. TRADE NAMES

It is perhaps unnecessary to mention the importance of Sears' own brand name and our own brand merchandising policy. Some of these trade names are more widely known than nationally advertised merchandise. They are, we feel, the blue-ribbon names in retailing. Trade names, always emphasized on informative labels, make retail selling more effective, impressing on the customer the name by which the merchandise is known. Only at Sears, obviously, can Sears' trade-named articles be purchased. A recent market survey, made for us by an outside organization, uncovered the fact that in some cases examined, the trade name was responsible for over 50 per cent of the purchasing at Sears.

As merchants, it is important to us that we firmly impress Sears' own brand names upon the minds of the consumers as reliable standards of quality. *Infotags* do this in a positive way. With Sears' many diverse lines of merchandise, no one trade name policy could be adequate for all cases. Depending upon the merchandise, accepted trade practices, and qualities in the line, one of three trade name policies is used:

One Strong Over-all Name,
or, Over-all Name with Strong "Subnames."
or, Many Single Strong Names with or without "Subnames."

The first policy, one strong over-all name, is used when every item in the line is under one trade name, as with our radios—every radio is a Silvertone, though there are differences in cabinets, types, performance, etc. The *Infotags* for this merchandise are green, offering a contrast to the brown tones of the wooden cabinets.

The second policy, over-all name with strong "subnames," can be illustrated by our hosiery trade names: Royal Purple, Desirables, Royal Purple Carefree, Royal Purple Beautifilm. Each "subname" is indicative of a quality difference.

Box flaps are glued into the boxes along one side, with instructions for the salespeople to help them do a better selling job. The package consists of the box, the flap, the merchandise, and a tissue insert (which the customer gets with each pair of hose) giving Washing Instructions and suggestions to "Plan Your Hosiery Wardrobe Carefully." The Royal Purple trade name, in characteristic logotype, is repeated on all of these parts, for added emphasis.

The third policy, many single strong names with or without "subnames," is illustrated by our line of garden hose, Fulton Not-A-Kink, Dunlap 4 Star, Dunlap, Craftsman 7 year, and Craftsman 10-year guarantee. Each trade name jus-

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tifies its existence by being used to identify merchandise within set quality standards.

2. SELLING COPY

Mr. and Mrs. Consumer want to know about the merchandise before they buy. Features listed on the *Infotag* immediately give them an accurate description even before a salesperson is available. Salespeople refer to the features on the *Infotag* for facts that clinch sales.

Answers to the questions, "What is it?" "What will it do?" are expressed in outline form, with the emphasis on "sell." These are the answers which interest the customer most, and they provide the salesperson with ideas on which he may elaborate—a handy outline chart for the salesperson to use in putting across the few final punches in closing the sale. We try to avoid "dry-as-dust" copy. We do not ignore what advertising men refer to as "emotion in promotion." Frankly, we try hard to take advantage of the very important emotional appeal. We don't say simply, "rayon and cotton." We say instead, "shimmering rayon and cotton damask—50 per cent rayon for beauty, 50 per cent cotton for strength."

As a good example of what can be done to put across selling points, let us take the *Infotag* attached to our men's Super Hercules Corduroy Trousers. These trousers are made from a special new type corduroy promoted as one of our Four-Star Features—a really outstanding value. This was a new product and neither the consumer nor our sales force knew its advantages. The *Infotag* folder used for this product helped put across our story.

On the cover is an explanation telling customers why this item rates our 4-Star classification. On the inside, the copy is broken down into two phases under the heading "Facts You Should Know About Super Hercules Corduroy." Under the second, "What It Will Do" the consumer is informed that:

"It weighs 16 to 17 oz. to the square yard . . . 30 per cent heavier than heaviest corduroy in general use."

"Warp, 71 two-ply threads; filling, 71 threads—far exceeds standards for this type of garment."

"840 pile tufts to the square inch for extra warmth and wear . . . close tufting imparts lustrous, velvety appearance."

"Pockets made of Super Hercules drill guaranteed for life of garment."

"Unbreakable buttons used throughout."

Under the second, "What It Will Do" the consumer is informed that:

"It is warmer, stronger, heavier, more wear than any other corduroy in general use today."

"Breaking strength warpwise, 116 pounds (20 per cent stronger than regular heavy-weight corduroy); fillingwise, 130 pounds to the inch (75 per cent stronger)."

"Reliable abrasion tests revealed no appreciable wear after 200,000 rubs in both warp and filling."

"Specially treated to repel water."

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"Added strength and wear make it ideal for work pants; deep colors and popularity of fabric adapt it to school, college, and sport wear."

All these facts can be summed up as selling copy.

On the back of this folder are even more selling features under the heading "How It Is Made." This is perhaps a rather elaborate approach to labeling an item as prosaic as a pair of corduroy trousers, but as we said, it was a new item, a new fabric, and a special selling story needed to be told. Our salespeople have been able to use this *Infotag* to put that story over.

3. RELATED ITEMS

Additional merchandise can be sold by suggesting related items on the informative label. On the back of a can of My Baby's Talcum Powder, for instance, we suggest: "For baby's added comfort use My Baby's Skin Oil and My Baby's Castile Soap." This tends to build up trade name acceptance, and added sales can be traced to these suggestions. The My Baby's Skin Oil bottle then carries a "plug" for My Baby's Talcum Powder and My Baby's Castile Soap. The castile soap wrapper says the same thing all over again, "plugging" the skin oil and the talcum powder—if anybody gets by without knowing we sell My Baby's line of baby accessories, it isn't our fault!

If, on the other hand, it is a Cross Country replacement engine you are thinking about, you are told that it will work even better if you use Cross Country Motor Oil and Cross Country Spark Plugs. This cross reference of related items is a "natural" that is sometimes overlooked, but usually with adequate planning, space can be made available for such "plugs."

4. TECHNICAL SPECIFICATIONS

Infotags list the hidden features not apparent through sight or "feel," giving construction and materials used, backed by Sears Laboratory tests and conforming to the Federal Trade Commission and other governmental rulings—an authentic description that the consumer has learned to trust. Needless to say, the claims made on the label must be true. Every fact stated on the *Infotag* is checked and proved by exhaustive laboratory tests. Sears Testing Laboratory is one of the largest of its kind.

The *Infotag* tells the consumer about the specific uses of the item—how it may be used for one purpose, but not for another, preventing overselling and consequent dissatisfaction. Hard-to-remember mechanical specifications are always before the salesperson for quick reference.

Such technical specifications are given, as the following which are listed for an electric refrigerator:

"With 1 bushel non-refrigerated storage space"

"Meat storage tray covered with Moonstone glass (15-lb. capacity)"

"Two 45-oz. water bottles"

"Freezing capacity 91 ice cubes (10 lbs. 4 oz.) at a freezing"

"Three stainless steel non-tip shelves"

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"Illuminated push button 9-point cold control"
"Frozen food storage compartment holds 16 lbs."

This is just one tag of the series that goes on our electric refrigerators. This same series of *Infotags* includes those for ElectroDay Electric Ranges, Prosperity Gas Ranges, and Kenmore Washing Machines. They all give adequate technical specifications so that the consumer has a definite idea of the construction and performance value of each item. Technical Specifications and Selling Copy are so closely related that sometimes it is hard to distinguish between the two.

5. CARE AND HANDLING INSTRUCTIONS

After the sale is made, on many items instructions are needed to insure maximum life and more satisfactory use of the merchandise. When an *Infotag* is attached, with adequate information supplied, returns are cut down. It is generally conceded that the return-goods evil, long a nightmare to all retailers, is caused in a great measure by improper care, handling, and use of merchandise by uninformed customers. Salespeople, in a large majority of instances, are unable to answer customer inquiries about washing instructions or technical handling which make for longer life and more satisfactory use. We do not claim that informative labels will put an end to returned merchandise, but we believe they will eliminate, to a large degree, returns caused by misuse or improper care, with their consequent customer dissatisfaction, and will alleviate the adjustment manager's problems.

Realizing that the consuming public changes, as to individuals—that women are starting housekeeping this year who have not run a house before—it is necessary, as retailers, for us to supply such routine information as washing instructions. Simple things like this create customer satisfaction by abolishing dissatisfaction.

Another example of Care and Handling instructions is the Bestmade cast-ironware label. Here, considerable space is devoted to "how to properly season."

Still another example, keeping ultimate consumer satisfaction in mind, is the *Infotag* instructing "How to Put On Your Lace Back Corset." (Apparently how to get out of it is the customers' concern!) "How to Wash" instructions are also given.

These are but a few examples of the many Care and Handling instructions which appear on our *Infotags*.

6. THE GUARANTEE

The established integrity of Sears and the mail order policy of "Guaranteed Satisfaction" are widely recognized, but a guarantee on the *Infotag* gives an added punch to the sales appeal. Many a sale is completed by the reassurance of a Sears' guarantee on the goods.

Such statements as, "This All-State Safety Tread 4-Ply Tire Is Guaranteed

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for 18 Months" are a definite sales aid. A similar guarantee appears at the bottom of each *Infotag* tire label. We have a wide range of tire labels, many kinds, and many sizes. Each color denotes definite price and type.

Sometimes the guarantee takes more explanation, as on the back of the HeatMaster Automatic Iron folder. Here, "We guarantee this iron to give you perfect satisfaction. If, for any reason whatsoever, this iron fails to give you the service you have a right to expect, return it to us. We will replace it with a brand new iron, charging you only 10¢ for each month you have had it."

Even Chinaware sells better when it is accompanied by a special guarantee that open stock will be maintained for at least five years, guaranteed against crazing, guaranteed that the pattern is exclusive with us. On the back of the legal-looking Bond certificate appear selling features of this ware, listing various items available in open stock, and hints on care.

7. TRADE-UP

The copy on the *Infotags* for a line of similar items at different prices shows the step-up in quality as price increases. This information makes it possible for the consumer to make a free choice. It's practically "cafeteria" selling! By examining the labels the consumer can readily see why one item is $1, $2, or $3 more than another similar item. Quality differences are clearly pointed out on the *Infotags*. Added features for more money tend to increase unit sales. The consumer often buys a better and higher-priced item than first considered. This trade-up policy helps Sears' buyers choose items that have real differences as price increases. Sometimes there have been too many items too similar in quality, in a line. Through making up new *Infotags* this was discovered. The buyers cut down the assortment, and the result was much better merchandising.

The copy on the *Infotags* for our lawn mowers show step-up in quality as price increases. The consumer can readily see why the Fulton Kwik-Kut at $4.75 with four blades, etc., is not as good a lawn mower as the Dunlap Defiance at $6.75 with five blades, etc. Specifications for action, bearings, tires, wheels, bed knife, and finish are all clearly stated on each tag, so that self-selling quality comparisons can be made easily by the consumer.

8. COLOR AND DESIGN

"Art" is incorporated in *Infotags* only to the extent that it will help to do a better merchandising job. The consumer public has definite color preferences for each type of merchandise. There is a "natural" for every job. These are considered in establishing color schemes. Design is used to make a pleasing arrangement of the parts included on the *Infotag*.

Color is used to distinguish between items similarly packaged to clearly define price groups. The labels for "Challenge," "Merit," and "Bestmade" shower curtains are an example. Blue is used for the Challenge line of housewares. There are many related items carrying this color scheme for identification as the "good" quality of merchandise in our Good, Better, Best pricing structure. "Merit" is always identified with a green *Infotag* treatment to denote

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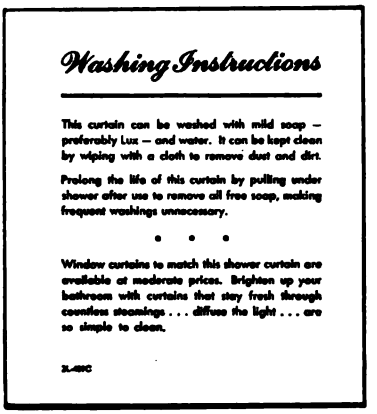
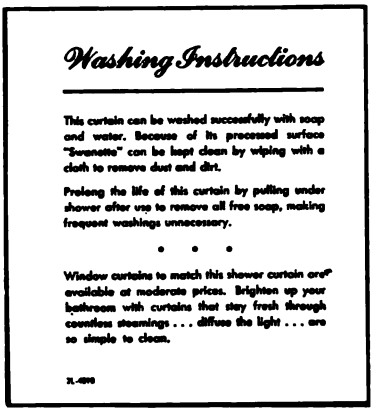
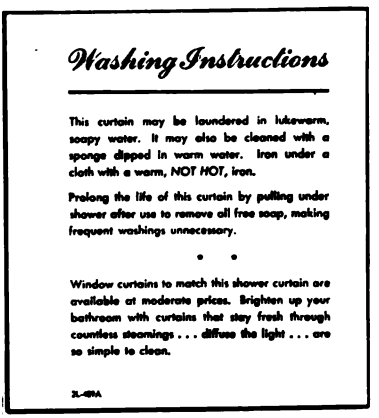
Front

Back







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our "better" rating of quality. These are only two examples, similarly, out of a line of many houseware items bearing this trade name. "Bestmade" is identified with red in the same way to denote the Sears "best" line.

Color coordinates our line of Ranger sporting goods, though the merchandise is quite diversified. Ranger ski binding, Ranger skis, Ranger hunting socks, Ranger gun cleaning rod, Ranger crow call, and Ranger duck call—to mention a few of the items that are sold under the Ranger over-all name—are held together by the consistent use of this color and design treatment.

Sears' farm store merchandise has one standard *Infotag* color scheme . . . red and black on white stock. We use one standard layout for illustration, logotype, and copy. The use of one color and one design holds together many different types of merchandise under various trade names in a way that has proved quite effective and practical.

Our policy is to use just one tag, one label, or one folder as the *Infotag*. The complete merchandise story is told on one compact piece, avoiding the cluttered look that exists when there are many unrelated tags, labels, and folders attached to each item. As many of the Eight Points as are applicable to the specific item are covered in the copy on the single *Infotag*.

CONCLUSION

Sears' progress in informative labeling has been rapid. However, our goal —to have every item sold at retail by Sears carry an informative label—is still some distance away. Many problems have to be met and solved—expense, method of application, color scheme and design, etc. Each individual item and line must be given individual attention. Nevertheless, we have applied informative copy in one way or another to many items and lines never labeled by anyone in the industry. We hope the results of our experience in connection with the informative label program at Sears, as outlined here, will prove interesting and helpful.

* * * * * *

Question: Don't you find it dangerous, for example, to make your comparisons between certain Sears lines and so-called standards?

Mr. Hecht: Well, it is our opinion that, unfortunately, there are not enough standards. We wish there were more with which we could make comparisons of our merchandise. In many cases, our problem is to try to establish standards, or to use them as a yardstick, or to try to pass on to the consumer information that will reveal what is in the goods, in the absence of standards by which to measure our own goods. But no, I would not say we found it dangerous.

Question: What sort of training program do you have for instructing your salespeople, who are scattered all over the United States, in relation to these labels?

Mr. Hecht: We have a very limited one, which is handled through our

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own Personnel Training Department. We have bulletinized the activity to some extent. We send so many bulletins and so much reading matter out of Sears' parent office to the stores that we do not have a great deal of faith in trying to get the program across that way.

We tell our visiting store managers about it when we have managers' meetings. We tell our retail sales managers about it. They spread the gospel as it pertains to their particular departments, on their own trips into the field. We take all the "visiting firemen," so to speak, in the way of personnel training managers or people who are in from the stores to visit the parent organization, through our Informative Labeling Department, where we have an exposition of some of these labels, and also we have our 8-point program. We depend on that to get the idea across to the stores and to the salespeople.

I might say that we depend most upon the *Infotag* which is attached to the merchandise to do the job, to attract the attention of the customer and the salesperson.

Question: What was the greatest factor in determining the color to be used on the various lines?

Mr. Hecht: We try to find a "natural" as the determining color for every job we do. If it is a job that has to do with drugs, or that has any sanitary implications, we look for something like Red Cross blue and white. If it is a job that has to do with our farm store, we tie the color in with the sort of fire-engine red, the "David Bradley" red, we call it, which all our farm implements are painted. It is much the same as what John Deere has done in using yellow and green as his identifying color. We try to approach each job in a similar way.

For the feminine merchandise, corsets and brassieres, we have established the color scheme of dusty rose (which we call "Rosona") with terra cotta. Everything we do in that particular division uses this color scheme.

I am a little at a disadvantage in telling you how we choose colors, because I am not an artist and I do not handle that part of the program. Miss Williams, our art director, goes into that carefully with the artists in the department, and with the buying department for whom we are doing the job. I think the best answer we could give to that would be that we look for the "natural" in connection with the job. We look for the color that best ties in with and best bespeaks the merchandise and its use.

Question: Is there any specific measure used to determine why a number is dropped from the line? Do you start first to maintain some retail price—a good retail price point, or do you develop quality specifications and let the price come as it will?

Mr. Hecht: Largely speaking, I would say that we price-point our merchandise. We take into consideration the competitive picture, and the psychological price points at which customers like to purchase merchandise. There are exceptions, however, as there always are. Exceptions notably come in depart-

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ts where quality never varies. In sheets, for example, where you get a 70 x onstruction, it goes on and on and on, and never changes. There we let price fall where it may, and continue with the quality. That is usually one ie kind of jobs that determines the third trade name policy in our choice of e—many single strong names. We use many single strong names when the lity does not vary, and when, whatever the season or the pressure, whether e at high price or low price, the grade continues the same.

Question: Does an *Infotag* start with the department manager, the pro- ion manager, the copywriter, or designer?

Mr. Hecht: I might say that it starts with Frank Parsons, our promotion ager. He contacts the buying department and sells them, shall we say, on idea of having informative labels on their goods. Frequently, he arranges a meeting of the entire buying staff of that department. In Sears, a buying f in one department might comprise anywhere from 10 to 15 buyers, who headed up by a supervisor or merchandise manager, as we say in a store. And may arrange for a meeting with departmental buyers, assistant buyers, il sales manager, mail order sales manager, supervisor, and we will go over give them a "spiel" something like that given in this paper, outlining the it-point program, and explaining how it has been beneficial in other depart- its. We have covered most of the departments in our house in this manner. st of the people are familiar with the *Infotag* program. So that now the etus, or the original request, is coming from the buyer, rather than from our artment; because it is a part of his job to have *Infotags* on his merchandise, t as it is to have shoelaces in shoes. When the buyer gets to lining up his rchandise for the next season, he comes to us to start working on tags for merchandise. By the time the goods are ready, *Infotags* are ready.

Member: Instead of waiting for one individual item to arrive with the d for an *Infotag*, you apparently take a department as a whole—is that right?

Mr. Hecht: Either a department or a related line of items as a whole— do not like to do a single tag. We believe it is futile. We have found in king with consumer leaders that a single tag does little good, because they not make quality comparisons with the one below or the one above. We ieve that many manufacturers and retailers feel that they have cooperated h the consumer movement, or with this newfangled informative labeling idea en they label the single "best-seller" item of their line. But that means, e one below or the one above is left without benefit of comparison with the e they have labeled, and it singles it out above all others. We do not think e job is done when that happens. With very minor exceptions, we do not do single tag. We do a line—all the sweaters, or all the dress shirts, or all the rduroy pants.

Question: Do you apply the *Infotag* to nationally advertised brands which e not Sears'?

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Mr. Hecht: It is not done by us. We have little or no nationally advertised brand merchandise, in the first place, and most of the national advertisers have done something about labeling their goods. They don't always give full information, but they always have a label or a trademark. We have had little, if anything, to do with national brands.

SOLVING THE SUBSTITUTION PROBLEM IN THE OIL INDUSTRY

By WALTER HOCHULI
Sales Manager, Central Territory
The Texas Company

IN the short space of about six years, the motoring public has become so accustomed to the purchase of motor oils in packages—that is, 1-quart and 5-quart sealed containers—that it would probably be impossible for the oil industry to revert to their former method of distribution, motor oils in drums. On the other hand, the average person considering the problem of selling merchandise in packages probably rarely thinks of motor oils. The fact that this method of handling has become so much a part of our industry is, we believe, a tribute to the can manufacturers and to the marketing departments of the oil companies.

SUBSTITUTION AT POINT OF SALE

There is no mystery about the reason that manufacturers and marketers of motor oils changed from distribution in bulk to distribution in sealed containers. We were faced with a very serious and practical problem. We were spending thousands of dollars each year to advertise a brand of motor oil and to urge the motorist to heed the advice of his car manufacturer in deciding on the type and grade of motor oil to use. We were spending additional thousands

THE AUTHOR Walter Hochuli started with The Texas Company a little more than 17 years ago, as a salesman. Since then he has filled successively all the positions in the sales department, up to his present one of Sales Manager for the Central Territory covering 15 states, which position he assumed over 3 years ago.

For four years Mr. Hochuli was with the Indian Refining Company, one of The Texas Company affiliates, and at the present time is still Vice President of that company.

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of dollars to manufacture a product that would give the motorist the satisfaction and service for which he paid. The next step was to find some way to guarantee to the motorist that he was getting what he asked for and what he paid for. Substitution at the point of sale was a very serious problem.

When a motorist drove into a service station and gave an order for one quart of a certain brand of motor oil, he had no way of knowing whether the oil put in his motor was the brand ordered, or some cheaper brand of poorer quality which the dealer was able to purchase at an extremely low price. It was very common for a dealer to deliver a lighter or heavier grade, even of the branded oil, if the particular grade requested was out of stock, as the motorist had no way of checking. We had many instances of the dealers' advertising well-known brands of motor oils and apparently doing a very satisfactory volume of business. The records showed, however, that their purchases of these branded motor oils from their suppliers would amount to only a few gallons per month, indicating beyond question that all the motor oil sold under that trade name was not the branded product. Even reclaimed crankcase drainings and red engine oils were being sold as high grade motor oil. Our problem was to provide a method that would protect our volume and our quality reputation, and give the motorist some form of assurance that he could purchase the type of lubricant required, to protect the large investment he had in his automobile.

METHODS TRIED

Various methods were tried and later discarded. One company experimented with a paper-capped package of the milk bottle variety, but this arrangement was made to order for the dealer who wanted to continue his old method. He refilled the bottles with a cheaper grade of oil, and then boldly called his customers' attention to the fact that this branded oil was now being shipped from the refinery in bottles and that the quality could be guaranteed. Obviously, this package was not a success. After that, bottles of the same type were equipped with a sealed cap, but, in a short time, methods were devised by which these bottles could likewise be refilled and sealed with the same type of cap. It soon became apparent that the only foolproof package was one that would be destroyed when the product was sold. So the present lithographed 1-quart and 5-quart cans came on the market. The package was successful immediately.

RESULTANT SAVINGS

The immediate effect of this change in distribution method was an increase in cost to the refiner. This direct increase amounts to about 10 cents per gallon, taking into account the cost of the package, the cost of filling, and the paperboard carton in which the packages are shipped, but this increased direct cost is offset, to a degree, by several savings which it is rather difficult to measure accurately. For example, under the old method, when oils were shipped in drums from the refinery to the bulk plant and then to the dealer's station, it was necessary that these empty drums be returned to the bulk plant and then to the refinery, if in suitable condition for refilling. If the drums were dam-

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aged, they were disposed of at a very low cost; if they were not damaged, there was considerable cost involved in reconditioning and repainting the empties before they could be used again.

A second saving to the oil companies was in the elimination of investment for lubricating tanks at dealer locations. When it is pointed out that, at the very least, it costs $100.00 to furnish a small dealer with sufficient lubsters to store four or five grades of motor oil, you can readily understand how large this investment would be for a company like ours, having almost 50,000 dealers throughout the country. To the initial cost of this equipment must be added maintenance cost and repair cost. All this has now been eliminated.

The third saving came in increased earnings as a result of greater volume sales. Naturally, all oils sold in trade name packages had to be purchased from the owner of that brand, and the possibility of substitution was definitely and permanently eliminated.

Another indirect saving that has resulted from the use of cans is the reduction in inventory at our bulk plants. Previously, the smallest quantity that could be shipped was a 5-gallon drum. Now shipments can be made in a package containing 24 1-quart cans or a 6-gallon total. This is particularly important in the matter of maintaining off-season stocks, for which we may receive an occasional call.

When we first changed to sealed cans our costs were, of course, rather high but many economies have been effected since then. We have a can plant of our own but most of the cans are purchased from can manufacturers. The construction of the can has been improved, resulting in a stronger and cheaper can. The same thing has happened to the fiberboard shipping cartons, and improvements in the mechanical handling of the filling and sealing equipment has speeded up production and reduced costs.

It is probably reasonable to say that the increased direct cost of 10 cents per gallon, that resulted from this change in marketing methods, is probably cut in two by the indirect savings that came to us, so that the oil industry is now paying only about 5 cents per gallon more for the protection of their products and their brands.

EFFECT ON SERVICE STATION DEALER

Service station dealers are, without exception, very well pleased with the new arrangement. Their buying price has remained the same, and they have been able to eliminate the inconvenience and untidiness that generally results from handling oil in bulk. They have been able to discontinue the use of from four to 10 lubsters, and thus have the advantage of this additional space in a unusually overcrowded service station building. The honest dealer is relieved of the stigma of suspicion that he might be dispensing oil of questionable origin in the same manner as the less scrupulous dealer.

This method has also enabled the dealer to use these packages, which are generally very attractive, for display purposes. You probably realize that prior

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:o the introduction of motor oils in sealed containers a service station dealer ıad practically no merchandise that could be used for display purposes on his ıland, in his windows or on his shelves. With the advent of canned oil, a ıervice station operator can now make his service station very attractive and very orderly.

EFFECT ON MOTORIST

The effect of this change on the motorist is immediately evident. He no longer need be concerned about the oil that is being put into his crankcase. The brand of oil is immediately apparent from the appearance of the package, and even the grade is stamped into the top of the can in such a manner as to be easily noticed. Most motorists have a definite preference for a certain brand of motor oil, resulting perhaps from the recommendation made by their car dealer, or perhaps from a satisfactory experience with a certain product over a period of time, or because they may have been convinced by the advertising of some of the well-known marketers. At least he has the satisfaction of knowing that his order for motor oil is being filled as given, and that he is receiving the product for which he pays. A few years ago it was not at all uncommon for a motorist to blame unusual wear in his motor on the possible substitution of poor motor oil, but now that the motorist can see the oil he is purchasing and is satisfied of its quality, he no longer blames motor oil for a possible mechanical failure on the part of his motor.

The motorist likewise has the guarantee of full measure since all cans are overfilled from 2 to 5 per cent. This increased quantity is placed in the can to compensate for the oil which drips to the side of the can when the contents are poured into the crankcase and insures that the ultimate consumer receives for actual use the designated quantity of oil in the container.

WIDESPREAD ACCEPTANCE OF SEALED CONTAINER

The manner in which this sealed container has been accepted by everyone concerned in our business has left no doubt in our minds as to the wisdom of the change. Even those stations which do not handle a branded *gasoline* but sell strictly on price will usually be found to have at least one grade of motor oil in sealed containers. It is true that they usually do not push the sale of that product but rather try to encourage their customers to purchase the oil handled by them in bulk because of the longer margin, but they nevertheless recognize the fact that the motoring public today has become educated to the value of the sealed container as assurance against substitution and the sale of an inferior and unsatisfactory product. Branded marketers still have available for sale motor oils in metal drums for delivery to fleet owners and large consumers, but even here there is a tendency on the part of the buyer to go to sealed containers, both for ease in handling and for insurance against substitution and contamination. Between 75 and 80 per cent of the motor oil sold by our company is now in sealed cans and other major marketers undoubtedly approximate the same figures.

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During the first two or three years of our experience in handling oils in sealed containers, we had some rather interesting developments along the line of substitution. We found in certain large communities that our dealers were being offered up to 10 cents a dozen for empty oil cans which were in good condition except for the opening on the top. These cans were refilled with an inferior product, and a second top put on the can. This was discovered when marketers of branded products found their oils being sold in sealed containers through service stations to which no deliveries of the product had been made. Occasionally some of these packages found their way into the regular dealer accounts of branded suppliers, to whom the product was represented as being authentic. When the first can was opened and the double top discovered, the dealer knew immediately that something was wrong and usually reported it to the company. This method therefore failed.

The next attempt on the part of the substituters was to cut the entire top from the used can, fill with a poorer grade of motor oil and reseal with a new top. This, however, resulted in the can's being about one-eighth to one-quarter of an inch shorter than the original can, and when these cans were stacked on the shelves of the dealer, the difference in size was immediately noticeable. Another plan consisted of refilling and resealing the cans and then placing a paper label completely around the can, thus covering the original name and giving the product a new designation. These labels, however, were purposely attached very insecurely and shortly became detached from the original package. The substituted oil was thus being displayed in the package originally containing an advertised brand. This, too, did not last very long, because all methods of substitution were vigorously dealt with by the industry and by others directly or indirectly interested.

Most stations today use a type of dispenser that renders the can unfit for re-use by perforating the sidewall, and this has been very effective. It is never safe to say that the possibility of substitution has been completely eliminated, because a new means may present itself tomorrow or the next day. We do feel, however, that as each new trick has been developed and promoted, it has been almost instantly discovered and eliminated at its source. We believe that our experience in the future will be equally satisfactory.

SUMMARY

To sum up the matter of handling motor oils in 1-quart and 5-quart sealed containers, there are, after all, only three people to be considered, and if the method is satisfactory to those three people, its success must be admitted. The manufacturer of motor oil is assured that the product on which he has spent money in manufacture and advertising is being properly handled and is being delivered in its original form and condition to the ultimate consumer, who puts it into his motor car and expects satisfactory service from it. The dealer has the same product at the same price in a much more convenient form, with the assurance against handling loss or substitution, and has, in addition, a product that lends itself to display and merchandising methods to increase his business.

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The motorist has the satisfaction of knowing that he is receiving the product for which he paid, the product which his car manufacturer recommends, and that he is receiving full measure for the money he pays out. The product is dispensed to him in a clean and convenient manner and comes to him backed by the reputation and prestige of the manufacturer. The change in the marketing of motor oil from bulk to sealed containers represents a three-way deal in which all three parties are the winners.

THE ECONOMICS OF PACKAGING

By E. A. THROCKMORTON
Director of Sales Promotion
Container Corporation of America
Chicago

JUST recently *The Glass Packer,* in an editorial, quoted a statement made by the Vice President of the United States in 1938 when he was Secretary of Agriculture; I cite this quotation as a sharply-directed comment on the packaging practices of American industry. Mr. Wallace said:

> "Consumers should have a chance to buy good food without expensive service—at a price that reflects the savings. . . . We need more low-price retail stores, which will handle bulk foods and avoid expensive packaging."

Evidently Vice President Wallace believes, as do many others, that bulk foods are cheaper than packaged foods, and that packaging tends to be expensive. If this be true, I fear for the future of packaging! Nor is consumer belief in incredible merchandising feats—concerned with selling 10 cents' worth of crackers for 20 cents, with making a questionable profit at the expense of the consumer—doing us any good, either. Is it possible that a great and growing industry can have such a foundation? Nonsense.

A glance at the accompanying chart will serve to confirm our opinion of the substantial growth in the use of those principal packaging materials for which statistics are available during the last 40 years, particularly if we visualize the addition of many other fast-growing materials, such as the many special papers, cellulose sheetings, foils and plastics. Let us also consider that most of these materials are more reasonably priced today than in 1899 in relation to the price index of manufactured goods as a whole, so that a comparison based

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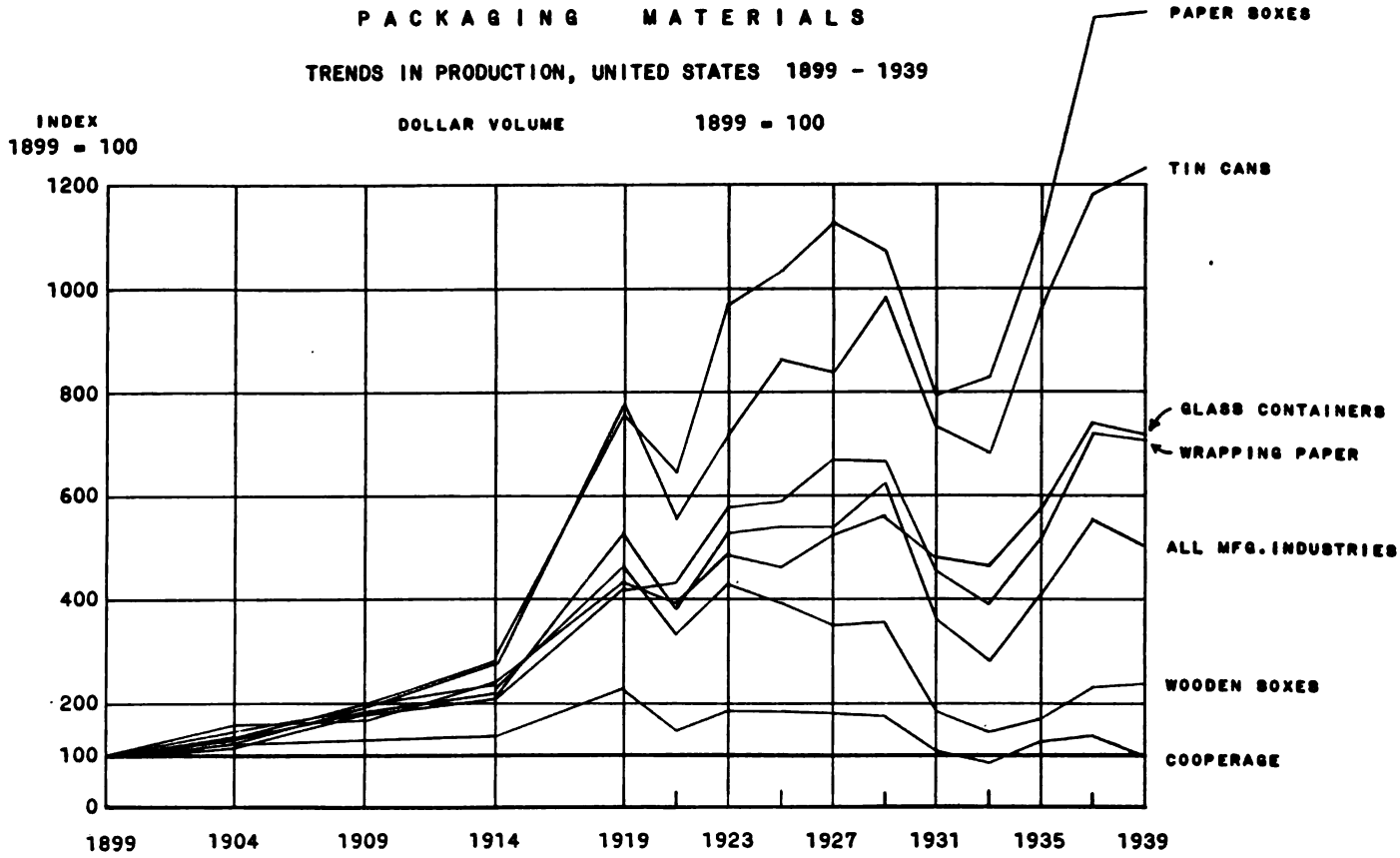
PACKAGING MATERIALS

TRENDS IN PRODUCTION, UNITED STATES 1899 - 1939



SOURCE: U. S. CENSUS

NOTE: FIGURES SHOW PRODUCTION, 1899 - 1927; SALES, 1929 - 1939.
PAPER BOXES INCLUDE SHIPPING CONTAINERS, CARTONS AND FOLDING BOXES, SET-UP PAPER BOXES, PAPER CANS, ETC.

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upon dollar volume does not really tell the whole story. Is this substantial and healthy growth due to package merchandising miracles and consumer exploitation? Nonsense.

For the sake of narrowing our discussion, let us disregard those functions which strictly concern the economical transportation of goods to the hands of their retail outlets. However, we may well begin our analysis with a quick consideration of the practice of reducing the size of the multiple shipping unit. The manufacturer increases his cost to reduce the handling cost of the distributor and jobber. He doesn't do it for fun. His purpose is to reduce the cost of distribution, and ultimately the cost to the consumer. I well remember the time, 15 or 20 years ago, when safety matches were packed 50 gross to the case. Some progressive manufacturers tried packing them five gross to the case, although the minimum sale to jobbers was maintained at 50 gross. This proved so convenient to the trade that, in a short time, the smaller units commanded a premium of 2 cents per gross. Is it any wonder that all manufacturers for this market reduced the size of their shipping container? The extra cost was much less than 2 cents.

Of course, when we come to a discussion of smaller consumer type packages, we may say that certain articles are so packaged because there is no other way to transport them. In this category we quickly think of canned foods, other types of preserved foods, drugs, chemicals and so forth. Actually, these obvious reasons for packaging really do not hold water per se. Why is it not cheaper to ship canned tomatoes to the retailer in 5-gallon cans, to be opened by the retailer, and dispensed in smaller quantities to his customers? It is, as far as packaging cost is concerned. But you want to mention the expense of handling, waste, sanitation, spoilage, consumer convenience? Quite right, but these factors all belong in separate categories.

Let us say that it is not apparently economical, as far as the manufacturer is concerned, to put up merchandise in small packages. The justification for small packages has to come from cost savings in distribution, or from definite needs or desires on the part of the consumer.

Basically, the upward trend of urban vs. rural population, and the trend towards smaller families and smaller dwellings are at the root of the packaging revolution, with its demand for the economical supply of smaller units of sale. I have always remembered, with a good deal of amusement, the question asked here in Chicago at another Packaging Conference some years ago. Said Mr. Lee Ferguson, "Why pay 25 cents for a bottle of salts, when you can buy a whole barrel for $2.00?" And, of course, the answer was, "Who needs a barrel of salts?"

PREPACKAGED VS. BULK DISTRIBUTION

If you will agree that the demand for small sales units is an accomplished fact, let us examine the savings possible to the retailer through prepackaged vs. bulk distribution. Sometimes we have spoken of prepacking purely from the mechanical viewpoint. We have discussed the prepacking of such things as

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furniture, garbage cans, china and glassware, and other similar items. There has been a great growth in such prepacking practices, fostered by the department stores in an effort to reduce the great cost of repacking and rehandling such items. The packing cost of the manufacturer may be increased, but the savings to the store offset this expense many times over. These moves towards so-called prepacking have been made with little regard to the merchandising advantages that we hear so much of in connection with the packaging of smaller units. However, the packaging cost of many small units is more than adequately compensated for by the savings in retail handling costs, and the merchandising advantages, of which we are so conscious, are often just extra benefits.

Much has been written about the sanitary advantages of the package, but little has been said of the waste in distribution eliminated by the package, and the reduction in retail operating expenses made possible through packaged merchandise. After all, you cannot carry home most merchandise by the handful. When viewed from this standpoint, packaging or prepacking, on the part of the manufacturer consists of lifting the cost burden from the retailer and more efficiently and effectively handling the same process in the manufacturer's plant. The cost of retailing merchandise has tended downward during the past generation in spite of higher rents, taxes, and labor costs, and these economies have been principally due to the increase of prepackaged merchandise. It would be physically impossible to handle the volume of retail trade now transacted without great increases in retail floor space and personnel if we returned to the bulk packaging practices of the last generation.

ECONOMIES IN MERCHANDISING

Among the economies in retail merchandising made available through packages, one may examine the following apparent factors:

Reduction of waste and spoilage.

Increase of volume per store employee.

Increase of volume per unit of store area.

The elimination of certain packaging materials which must be bought by the store if they are not provided with the product by the manufacturer.

These economies in retail merchandising are sometimes very clear and calculable, but more frequently obtuse. Retail mark-ups have been based, as a rule, upon competition and turnover. The gradual reduction of mark-ups which has come about in connection with packaged merchandise has come gradually, and sometimes even unconsciously. Obviously, the average retail food store is not able to make cost studies concerning the actual cost of handling different commodities. However, the growth of the supermarket will tend to bring these facts to light in a more definite way. Let us consider, that without packaging there could be no supermarket.

In this respect let me quote from a report from England carried in a recent issue of *Modern Packaging*.

> Nothing teaches the value of a thing more effectively than being deprived of it.

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This has been strikingly demonstrated in the case of soap and certain other commodities normally packed in cartons. The compulsory issue of uncartoned soap has called forth some drastic criticism on the part of retailers. A speaker at one of the Grocers' Association's Meetings, recently, pointed out, "If the manufacturer did not wrap it the grocer must, so there was no paper economy but a definite wastage of handling labour instead of mass wrapping by machinery." Another speaker said, "The cost of time in wrapping soap in every retailer's shop, when worked out in the aggregate, was colossal when compared with the machine wrapping of the makers."

* * * * * *

At the meeting in another part of the country attention was drawn to the wastage of sugar entailed in weighing up small quantities. Here is seen another advantage of the carton packing of sugar, which has of recent years been a feature of the modern marketing of this commodity.

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There is no doubt that in those cases where the carton has been eliminated it has caused widespread inconvenience to the manufacturer, the retailer and the public.

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WHAT THE CONSUMER WANTS

Now, let us consider for a moment the consumer's viewpoint, and attempt to tabulate the more obvious phases of the consumer's interest in packaging.

1. *Small Units.* The desire for small units on the part of the consumer has already been discussed.
2. *Cleanliness and Sanitation.* This is a well-known desire of the consumer.
3. *Brand Identification.* Obviously, many products cannot be identified as to brand if unpackaged.
4. *Quality Identification.* Bulk merchandise is apt to be un-uniform and is hard to identify.
5. *Assurance of Full Weight and Measure.* We must not forget that every large city has problems in enforcing weight and measure ordinances in an attempt to protect the consumer. Packaging gives us better protection.
6. *Prevention of Substitution.* An important item in some types of material.
7. *Sentimental or Gift Packaging.* Obviously there is no economy in wrapping up dozens of items in fancy paper and ribbons on Christmas Eve and then tearing off all the paper on Christmas morning and throwing it away. The public, on the other hand, likes these customs, and will pay for them.
8. *Convenience.* If you can think of any way of lightening house work and saving time in the kitchen, the housewife will be anxious to use the item.

CONCLUSION

I have purposely not mentioned the possibilities of package merchandising where there is no other justification for the package than a straightforward sales objective. Actually, sales costs, advertising costs, and packaging costs have something to do with each other. The basic problem is, what is the most effective combination of methods available within a total sales cost that the market

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will bear? It is possible that in certain situations a package which is not required by the economics of distribution or consumption may tend to reduce sales cost or to increase business. But this is the exception rather than the rule. Bound up in this phase of the subject is the question of brand identifications for national advertising and national merchandising. Obviously it is hard to brand certain commodities in any effective way without some form of a package.

I do not wish to imply that packages cannot be great sales aids and cannot accomplish many useful sales purposes, even an occasional miracle. On the other hand, I do want to emphasize that this is not the basically important end of the packaging business, but is the "froth on the beer." If there are any volume packages that support themselves purely by their sales power, without some economies to the distribution chain, or without fulfilling some requirement of the consumer, I shall be very much surprised. I have seen many attempts to put shoddy merchandise in fine packages, or to package merchandise that had no justification for a package, but in the end these efforts have all resulted in failure.

The practice of packaging is not a merchandising panacea; it is an important tool to economical distribution.

THE BALE OF HAY AND THE PACKAGE

By CHARLES H. LILIENFELD
Advertising Manager
National Tea Company

THE famous German poet, Goethe, once said: "There is nothing more frightful than an active ignorance." Irving Fisher, the noted economist, had the same thing in mind, when he stated that what people don't understand they condemn. This seems to be true in the field of food packaging, because there has been far too much unwarranted criticism—criticism which has had no sound

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economic basis; in fact, in many instances, attacks without any basis whatsoever—a barrage of words built on superficialities.

As Wilbur F. Howell in a recent issue of *Food Industries* states:

> The package is held to blame for the high cost of foods, so much so that many, forgetting the conditions which forced consumer-package adoption, advocate a return to bulk foods—a return to the cracker-barrel age . . . The package —mostly in the abstract, to be sure—gets a flailing at all too many gatherings of organized women's groups. Even the Federal government has been vocal, condemning the package—advocating food sales from bulk stock.

SHALL WE RETURN TO BULK MERCHANDISING?

Let's assume, for the moment, that the critics are right—Packaging *does* increase the cost of foods to the consumer. To my mind it is extremely doubtful if the exponents of such thinking would be desirous of carrying their arguments to a logical conclusion.

For the moment let's follow this line of thinking . . . Do packages increase costs? Well, then, eliminate them! Return to the cracker barrel, the butter tub, the cookie box, the flour and sugar barrel era! Now then, would food costs be lower? Lower, yes—but not at the potential minimum. If we are to logically follow this thinking, these costs can be reduced even more, to the absolute rock-bottom. Merchandise can be sold in bulk, absolutely in bulk—not in package, bag or box. No. Sell a bushel of flour or a bushel of peas, navy beans, rice or lentils. Sell Kellogg's Corn Flakes, Wheaties or Grape-Nuts in barrels or bushels. Sell a washtub of soap flakes or scourines. No difficulty in weighing out the 4 or 5 pounds of soap chips and putting them in a manilla bag. Sell Palmolive or Camay Soap in the same form farmers buy Rock Salt for cattle—namely, a 50-pound cake of toilet soap. Mrs. Housewife can take the family butcher knife and chip out a few ounces for current needs.

Thus, you see, we reach a real bulk basis. In fact, we are practically on a par with Old Dobbin, who eats bulk goods everyday and likes it. To be sure, Dobbin's oats come in a bag, but not his hay—no fancy cartons or wrappers. Dobbin eats just plain bulk goods, a bale of hay with a little wire for color appeal.

Suppose we leave the bale of hay era and return to the original assumption in which critics contend: Packaging *does* increase the cost of foods to the consumer.

I believe this to be largely false . . . false on at least two premises. One, the United States Department of Agriculture, establishes quite clearly in its bulletin of February 21 of this year:

> During the last 25 years, many changes have taken place in the processing and distribution of food products, some tending to increase marketing costs and others to decrease them. In general, consumers are getting more in the way of goods and services from the marketing system—they are buying baked bread rather than flour, canned instead of raw fruits, small-packaged rather than bulk food forms. All this adds to the cost of marketing and partly explains the increased spread between farm and consumer prices. If consumers want these services and are willing to pay for them, they should be allowed to do so . . .

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CHEAPER TO HANDLE

The second premise, and to my mind the more important one, is that packaged foods in many cases are cheaper to handle and sell in retail stores than bulk goods. Please note that this opinion is the direct antithesis of that expressed by packaging critics.

To support this declaration, several case studies have been made. The first was a case study of farinaceous foods, many of which are everyday staple items, found in most homes. Packaged in window-front cartons or cellophane bags and ranging from 12 to 16 ounces in weight, this line includes: Fine Tapioca; Medium Tapioca; Coarse Barley; Pearl Barley; Fine Pearl Barley; Lima Beans; Great Northern Beans; Black Eyed Beans; Navy Beans; Red Kidney Beans; Pinto Beans; Lentils; Yellow Split Peas; Green Split Peas; Blue Rose Rice; Head Rice; Scotch Green Peas; Spaghetti; Macaroni, and Noodles.

How was this merchandise sold 20 years ago—in 1921? What were the comparative selling costs, or elements of selling costs for this line in 1921? Perhaps the following analysis of some of the important factors will help give a cost picture for the two periods.

STORE FIXTURES

In 1921 the farinaceous food section, including three or four dried fruit items, occupied two full-vision floor display showcases. The size of both fixtures was 6′ x 16′. About 18 30″ x 24″ x 5″ galvanized tin pans were required as containers. In addition, probably a dozen more smaller pans, 30″ x 12″ x 5″, were used. Then, also, approximately 16 lineal feet of shelf space was required for macaroni and spaghetti items, which, even at this early date, came packed in large cartons.

Now, how does this contrast with 1941 store equipment? In a typical 3000- or 4000-square foot store, 30 lineal feet of center island shelving is provided to stock all of the cereal varieties of 20 years ago, as well as some of the new varieties. In an additional space of 30 lineal feet, the macaroni and spaghetti items are displayed. In other words, the farinaceous foods occupy 60 lineal feet or four 15′ shelves, usually placed one above another.

We can get a clearer picture of this by summarizing the types of displays and sizes employed during the two periods.

In 1921

2 display cases 8′ x 30″ to 36″ x 4′ high, occupying approximately 96 square feet of floor space. Shelf space—16 lineal feet.

In 1941

4 15′-island shelves, utilizing 15′ x 27″ of floor space, or 33¾ square feet.

Conclusion: The cost of equipment today as compared with 20 years ago can be measured in this way:

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2 30″ to 36″ x 8′ showcases would equal about $52.00 per unit, or $104.00. Add to this the cost of around 30 pans at about 75 cents each, plus metal price card holders and pricing signs. In addition, 16 lineal feet of shelf space.

Approximate cost of island shelf space today, around $2.19 per square foot, would total $131.40.

Thus, equipment costs would be approximately the same.

However, the most significant difference would be in the cost of floor space. In 1941, 33¾ square feet vs. 96 square feet of display space, plus 16′ x 10½″ shelving, or 14 square feet, or a total of 110 square feet in 1921.

RENT

By charging the prevailing rate of rent, it can be quickly seen that the 1941 rental for the farinaceous food department would be at least two-thirds less.

CAPITAL

Let's examine the capital investment for both periods. In 1921 some farinaceous items, such as navy beans, were shipped to stores in 100-pound bag units. The shipping unit for other items was 5, 10, 25 and 50 pounds. Today the shipping unit is as low as 12- or 16-ounce cellophane or window-front cartons or packages.

Now multiply the number of items by the units, and it can be readily seen that the capital investment is a good deal less today than it was 20 years ago.

SHRINKAGE

Another important element of cost is involved in shrinkage. When the consumer buys a package of navy beans, she does not realize that certain unavoidable wastes have been added to the cost. These wastes are referred to as *shrinkage.* Common causes are evaporation and losses through beans dropped from the machines during the process of packaging. It has been estimated that at present such shrinkage runs around 5 per cent.

How does this compare with the shrinkage which occurred 20 years ago? Then, the clerk, using a scoop, would delve into a 100-pound bag, withdraw the overflowing scoop from the bag, and place the contents in a paper sack resting on the scale. Obviously, the loss in droppings was far greater than it is today in machine packaging. Further, there was always a residue at the bottom of the sack which was difficult to scrape up with a scoop. It has been estimated that this loss was as much as 50 per cent more than the loss in present methods of machine packaging. Moreover, today there is virtually no loss from shrinkage in the store; it is a processing loss.

TURNOVER

Another important cost element is stock turnover. Stock turnover in 1941 is greater per dollar of total sales than it was in 1921 because: first, the shipping

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IMPORTANT COST ELEMENTS IN PACKAGED VS. BULK FARINACEOUS FOODS		
	1921	1941
STORE FIXTURES (Floor Space)	110 sq. ft.	33¾ sq. ft.
RENT		69.32% less
CAPITAL	Larger Stock	Smaller Stock
TURNOVER	Slow	Very Rapid
SHRINKAGE	7½% to 8%	Approx. 5%

IMPORTANT COST ELEMENTS IN PACKAGED VS. BULK BUTTER		
	1921	1941
REFRIGERATION UNIT Floor Space Cost of Equipment Sales Productivity	 Approx. Same Less Est. 15 Items	 Approx. Same More Approx. 60 Items (4 times as great)
RENT	More	Less (Greater sales productivity of refrigeration unit)
REFRIGERATION Operation Cost (Summer)	 2500 lb. ice per week— 50¢ per c. $50.00 per month	 Electricity and Power $7.50 per month
BUTTER STOCK Avg. Daily Inventory	 2 63 lb. tubs or 126 lbs.	 75 to 100 lbs. in cartons
TURNOVER	Less	More
SHRINKAGE	Est. 1½ lbs. to 63 lb. tub	¾ lb. to 63 lb. tub

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unit is smaller; second, the amount of display space per item is also less.

Here is another essential point. As already stated, some farinaceous foods are received in the store in a unit consisting of 12 1-pound packages. Compare this with the 50- or 100-pound bag of 20 years ago. It is easy to make your own calculations of stock turn. In 1921, a store would receive a 100-pound bag of navy beans. If the demand was 12 pounds a week, obviously, the supply was more than was needed for two months. Today, the same store would receive a shipping unit of 12 1-pound cartons. Thus, in this particular case, the turnover is eight times as rapid.

From the foregoing analyses of the various elements making up the cost of selling farinaceous foods, it has been established that these costs are actually considerably lower today than they were 20 years ago.

PACKAGED VS. BULK BUTTER

Now let's examine a second case study—a study of packaged versus bulk butter. In 1921 butter was sold in 63-pound wooden tubs. Today most butter is packaged in 1-pound cartons or wrapped in printed waxed paper. A study of cost comparisons between the two periods reveals a number of interesting facts.

REFRIGERATION UNIT

In 1921 a refrigeration unit was approximately 4′ x 8′ x 10′6″ depending on the size of the store. While the dimensions of the unit varied with the size of the store, the type used frequently was that containing two compartments for holding bulk butter and a third for bulk lard. Butter, of course, was openly displayed, and the clerk, using a wooden butter blade, would scoop out the desired amount and weigh it on a nearby scale.

What were the comparative costs of refrigeration?

EQUIPMENT

Insofar as the actual cost of the equipment is concerned, it can be stated that the 1941 equipment is more expensive than that used 20 years before. But it will be presently shown that the additional initial investment is more than offset by economy of upkeep.

RENT

The cost of rent is less now than it was in 1921, not because of the difference in floor space, because that factor is approximately the same—depending again upon the size of the store. Greater sales productivity is the basic reason for this reduced cost. The average number of items carried in a refrigeration unit in 1921 was about 15. Today, the number is around 60. Thus, the sales productivity is at least four times as great, and for that reason, rent, based on floor space, can be considered far less.

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COST OF OPERATION

In 1921 a typical size wooden-type refrigeration unit used approximately 2,500 pounds of ice per week, which, at 50 cents per hundred pounds, meant an ice cost of over $50.00 per month. In 1941, for about the same size box, the charge for electric power is approximately $7.50. Thus, the larger capital investment in a modern refrigeration unit is more than offset by lower costs of operation.

BUTTER STOCK

Two 63-pound tubs, or 126 pounds, of butter were stocked in the average chain store unit in 1921. Today, approximately the same size store carries a stock of 75 to 100 pounds in cartons. Thus, the butter inventory is lower and for that reason—assuming consumption to be the same—turnover is greater.

SHRINKAGE

In machine carton butter today, shrinkage runs around three-quarters of a pound per 63-pound tub, which is the original container received from the creamery. This is a processing shrinkage. Virtually no shrinkage occurs at the point of sale.

It is estimated that 20 years ago the shrinkage was about double, or 1½ pounds, due to the tendency of salespeople to give slight overweight. Here the shrinkage did occur at point of sale.

Because of the rapid turnover, shrinkage from moisture evaporation is not considered to be an important factor, though it may be in the case of storage butter.

In presenting these two case studies, it has been my endeavor to refute an impression existing in some quarters that *packaging increases the cost of foods to the consumer*. Now, while these cost analyses are incomplete and only apply to two kinds of merchandise—butter and farinaceous foods—further investigation of other food items would result in a similar conclusion.

Aside from specific case studies, certain trends in marketing seem to offer further refutation of the fallacious theory that higher consumer cost results from packaging.

OVER-ALL COST REDUCED

What critics apparently mean when they say "high cost" is that the package or container costs, let us say, a penny per pound of merchandise. If the item were sold in bulk, the cost would be less because there would be no package expense and no penny charge, disregarding, for the moment, prepackaging charges. Such a conclusion is superficial. If, by adding a penny to the cost of this particular item, you reduce the over-all expense of selling reflected in turnover, shrinkage, investment in fixtures or rent of floor space, the ultimate selling price to the consumer, in most cases, will be lower.

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Thus, it is my conviction that packaging actually has reduced Mrs. Consumer's food bill, and that packaging, by and large, is an unvarnished blessing which the consumer takes for granted, just as she does many other developments which have materially contributed to our advanced standard of living.

Not only has packaging helped to reduce the food bill, but it has been an important factor in the development of the type of food store we have today. Imagine, if you will, a self-service or so-called super-store unit selling bulk foods a la 1921. It is hard to see how any great amount of bulk goods could be merchandised effectively in the 5,000 square feet that, in the self-service store, provides roomy aisles down which Mrs. Housewife can wheel a basket, to make her selections from trim shelves and island displays of packaged merchandise. Exactly how much floor space would be required to purvey bulk goods would make a most interesting study.

Moreover, the self-service or large unit chain or independent food store has become increasingly necessary in present-day marketing because of mounting labor and tax burdens. The only way many operators have been able to meet these problems is by greatly accelerating sales volume per unit of operation.

The point to all this is: In my opinion, it would not be possible to meet increasing labor and tax costs with the smaller chain or independent store unit. The trend has been to larger units; it, undoubtedly, will continue in that direction, and what retail dealers would do without modern packaging, in order to sell more merchandise through fewer units, is anyone's guess.

SUMMARY

In conclusion, let me summarize my remarks: First, if we followed the thinking of packaging critics to a logical conclusion, we would consume bulk goods like Old Dobbin—on the "bale of hay basis." But this discussion has not concerned itself with the advantage of packaging to our standards of living —sanitation, grading, quality identification, etc.—we have been primarily concerned with cost factors. So, secondly, it is my contention that packaging, instead of increasing costs to the consumer, actually has the effect, in most cases, of decreasing the cost of food products. Finally, the evolution of the modern food store, whether it be independent or chain, super, self-service or semi-self-service, has been made possible primarily because of the speed-up packaging has given to this type of merchandising.

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THE CONSUMER LOOKS AT PACKAGING

By MRS. WILBUR E. FRIBLEY
President
Chicago Housewives' League

NEW evaluations of time and its use have resulted in a turning from the proud boast of household drudgery to the discussion of efficiency. Today homemakers are judged not by how hard they work but by how intelligently and satisfactorily they plan and execute a routine. A part of this new evaluation is a growing demand for packaging and sales methods that lead to quick efficient choices, easy, unhampered purchases, simple, safe handling; and to the demand for reliable containers designed for space saving in storage and assured ease of use. Consumers view containers today as a modern necessity, presented for their benefit and designed to offer products in such a way as to allow for an intelligent choice. Many feel that too much packaging is conceived to impress or confound competitors, rather than to serve and protect the purchaser.

TWO CONSIDERATIONS IN SELECTION

To the average consumer there are two considerations in selecting packaged products. The first is related to shopping, and the second, to the function of the package in the home. In shopping most buyers, consciously or unconsciously, are looking for:

1. Coverings that protect and preserve; insure cleanliness and sanitary handling; keep the product moist, dry or in good color and condition.
2. Coverings that enhance or increase the real or imputed value by color, shape or general air of elegance.
3. Coverings that make for convenient choice through labeling, lightness of handling, and through unbreakableness. (There is an increasing annoyance at the amount of useless weight carried into the house only

THE AUTHOR Mrs. Wilbur E. Fribley is President of the Chicago Housewives' League, a group organized to study consumer problems, in 1910. The League serves as a clearinghouse for speakers, movies, exhibits, and legislative material affecting consumers. Some of the subjects studied by this group are: informative labeling, efficiency in the home, weights and measures, city ordinances, storage laws, and food inspection.

Mrs. Fribley is, also, Chairman of the Food Merchandise Committee, of the Woman's Club of Chicago. She has served on many consumer committees, such as those existing during the N.R.A. period, and on committees seeking more efficient production and distribution of milk, meat and other foods.

The object of Mrs. Fribley's activities, which include numerous speaking engagements, article writing, and radio broadcasting, is to help bring about better and happier homes.

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to be later consigned to the garbage—such as, heavy glass, tin, fancy coverings.)

4. Coverings that are definitely designed to ensnare consumers by trick shapes or startling effects never before seen by man.

The factors influencing choice when the problem of the package's function in the home is considered are:

1. Are the containers destroyed in opening, as, for instance, cellophane wrappings and cans?
2. Are they to be used for short-time storage, as cereal, coffee, spices, cosmetics?
3. Do they have a future use, as, glasses, jars, jugs, tin, wooden or cellophane boxes?
4. Do they have beauty, as cosmetics jars, perfume bottles, etc?

BENEFITS DERIVED FROM PACKAGING

The extra cost of packaged products is justified by consumers in the benefits derived therefrom. Packaging has been accepted because these benefits have been recognized as serving the best interests of the consumers. These are chiefly:

1. Assurance that exactly the same product can be procured each time, through accurate labeling and recognized container.
2. Knowledge, through labeling, of the manufacturer or processor.
3. Assurance of accurate weight and good sanitary condition.
4. Certainty of recognition for future purchase—or, to avoid buying again.

In one discussion among shoppers, it was definitely stated that rarely or never did the average consumer reweigh manufacturers' packages, such as rice, prunes, coffee, etc. More than two-thirds said, however, that they ask for reweighing when buying products packaged and sealed in the store. In other words, most consumers evidently avoid store-prepared packages whenever possible.

UTILITARIAN POINT OF VIEW

Consumers, meaning people of all incomes and conditions of living, have a great interest in containers, from a strictly utilitarian point of view. The smaller living quarters and the greater use of all parts of the house, the streamlining of living, all have a bearing on consumer acceptance of packaged products. Granting all standards are met, ease of actual use is a vital factor. Skipping food and kitchen supplies, consider the many items in the average bathroom cupboards—toothpaste, mouth wash, shaving materials, bath salts, powders, hand lotions, body oils, hair tonic, deodorants, face creams, disinfectants, antiseptics, first aid supplies, etc. A check of any cupboard will show the utter indifference on the part of the manufacturers as to convenience of storage, or use of shelves in bathroom cupboards.

These shelves are extremely narrow, and, ordinarily, are set close together to permit storage of tall containers. The most likely place for the bathroom

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cupboard is directly over the porcelain washbasin, yet many products are sold in containers that are breakable, and whose shapes are almost impossible to hold in a wet hand. Others topple at the least touch. Tops are difficult to remove. Many containers drip at the pouring lip. The variety of shapes makes an efficient arrangement on the shelves difficult. Is it any wonder that consumers are always switching containers in their hunt for efficiency?

SERVICES EXPECTED

Today, consumers expect definite services as well as protection through packaging done by the manufacturer or the processor. The average purchaser wants:

1. Coverings for useful purposes, not for deception.
2. Coverings that make available all possible knowledge about the product. (Even small cellophane bags show the size and condition of beans or rice.)
3. Coverings that bring products into the home in the best possible condition, with the least change from the peak of perfection, whether these products are food, textiles or equipment.
4. Coverings that assure the purchaser of original content, preventing substitution or camouflage.
5. Labels which are easy to read, giving content, weight, name of manufacturer or processor, thus facilitating future choices.

PROBLEM OF WORKABLE CLOSURES

There is much discussion concerning closures. Many of them are difficult, messy and wasteful—if not downright dangerous. These faults can apply to almost every type of closure. Only the integrity of the manufacturer or the processor protects the consumer. Perhaps one of the greatest research problems for the packaging industry today is this one of workable closures.

RECOGNIZABLE PACKAGES DESIRABLE

Natural trends in today's living—where thousands of consumers of all incomes and tastes travel the country from coast to coast each year—create a desire on the part of the public to be able to purchase known items with the least possible trouble wherever they happen to be and wherever merchandise is sold. Correct and recognizable packaging and labeling are the only answer, if both the consumer and the manufacturer are to receive mutual benefits from the added cost of good packaging.

THE FUTURE OF PACKAGING

Packaging is bound to mean more in the future, as consumers demand more and more efficient retail distribution, and as they choose between so-called service stores, with charge accounts and delivery service, and the self-service stores, with almost automatic distribution.

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From present trends it seems inevitable that more and more retailers will have to overhaul their present system of selling. Interested consumers are convinced that consumer education and an understanding of the new labeling laws and rulings, together with inexpensive packaging and efficient machinery, will create new and better retail distribution methods.

From a consumer point of view, the future of packaging depends on decidedly improved retailing methods; on comparative displays rather than exclusive showings; on the obvious honesty of the container; on better and more easily read labels; on the willingness of industry to help educate rather than hypnotize the average consumer; on the integrity of the manufacturer or processor. In the final analysis, however, complete satisfaction to manufacturer, retailer and consumer will be attained not through recognition but through universal acceptance. The true point of sale is at the point of use, not at the point of purchase.

Discussion

Question: A large chain operator was reported as establishing a mark-up differential on one of its products which was sold both in bulk and in packages over a range of 20 per cent mark-up on the bulk product and 35 per cent mark-up on the packaged product, when it was proven that the packaged product cost less to put in the hands of the consumer than the bulk product. The question I want to put is this: Whose fault is that, and what is the packaging industry going to do to rectify it?

Mr. Throckmorton: I would say that mark-ups are based more on competition than upon cost, and in that case the consumer demand for the packaged product was so great that the retailer could get the extra price. Competition, however, is ultimately based upon costs, and eventually corrects these situations.

In many cases when packaged goods are first introduced, the mark-ups are high because the dealers may feel that the demand for the package will be great. In the long run, I think competition forces them to a lower level.

What does Mr. Lilienfeld think about it?

Mr. Lilienfeld: I did not know there were any grocers making 35 per cent. I cannot quite understand the situation where they would establish a 35 per cent mark-up on a packaged item. Is that what the question said?

Member: Yes, a packaged item. The statement of this particular retailer was, that on the bulk product his mark-up was 20 per cent—only 10 per cent on sale days. On the packaged product it was 35 per cent. as he put it, "across the board."

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Mr. Lilienfeld: I think the point Mr. Throckmorton made about competition is very important. Unfortunately, there is a great amount of merchandise sold in all food stores, with few exceptions, at an artificially low price level. That has a bearing on this point: the dealer may have selected that particular item to help pay some of his operating expenses. So he established a 35 per cent mark-up, but he did not have any basis for doing so. He just picked it out—a good profit item—in order to permit him to sell soap and dry packaged cereals at less than a 10 per cent mark-up.

Question: Mr. Lilienfeld, from your study of butter costs, and from a knowledge of what, roughly, the packaging costs are, both for creamery prepacking and for store packing of butter, would you say that it cost actually less all around to sell butter in one-pound cartons than out of tubs?

Mr. Lilienfeld: I would say the cost of the materials is about the same. That is, considering the paper or wood-pulp butter dish, the paper liner placed at the bottom of this dish, and the wrapping paper, I would say that the cost of those three items is about the same as the cost of the carton and the liner in the carton.

Member: If that is true, why do you sell bulk butter in some sections?

Mr. Lilienfeld: The reason for that is, Mrs. Consumer decides she wants bulk butter, and that is what she gets. Either she gets it, or the merchant does not stay in business very long.

That is a very interesting point. In certain areas around Chicago, even today, it is necessary to continue selling bulk butter. The consumer, in my opinion, has certain superstitions which may have been warranted originally, but which are no longer justifiable. She feels that the quality of the butter may be better, or that the butter is fresher, or, as one chap told me, she thinks she gets a little more. I believe, in that last case, the consumer might be right. She might get a fraction of an ounce more than the pound she is paying for, because the retailer is anxious not to short-weight her, and the tendency is to give her over-weight.

Member: In connection with the preference for bulk butter in certain localities, is it possible that the housewife might feel that something has been taken out of the butter in order to enable that grocer to sell the carton-packed butter at the same price as the bulk butter?

Mr. Lilienfeld: That might be. If the retailer attempted to explain some of the changes he makes, or that are made for him by the manufacturer or the processor, undoubtedly much of the misunderstanding and doubt would be removed. But very little effort is ever made to explain these things to the consumer. She goes to her favorite grocery store and finds that the form in which she was accustomed to buy a product has been changed. I can see how doubt and suspicion would arise in her mind.

Mrs. Fribley: I believe what you are really saying is that most consumers are partial to products representing as nearly as possible their conception of

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*home*made. Your reference to the seeming demand for butter in bulk or rolls, in preference to packaged butter, is a direct manifestation of a desire for the so-called homemade.

"Homemade" is a mirage most consumers are constantly pursuing, and it applies to varied products—bread, butter, ice cream, and many popular items. Even laundries claim hand work or *home* laundry. Essentially, what consumers are hunting for is products "just like Mother made," all neatly packaged and labeled in safe sanitary cans or packages.

But everyone interested in consumer acceptance of products must keep in mind that canned and packaged goods have come up the hard way. That is, canned products first found favor and acceptance among the lowest income groups and gradually climbed to the top ranks, this process being a direct reversal of the usual procedure, since most new products start as luxuries and gradually expand to all income groups. This history of canned products has a direct bearing on consumer acceptance of packaging. There is an amazing number of consumers so snobbish that they believe they are being superior when they deny the use of canned products. Everyone knows they and millions more use packaged food, but "homemade" is still a magic word. It is to be hoped "homemade," whether by word or inference, will be strictly banned from commercial products.

Question: Mrs. Fribley, do you believe consumers are ready to pay the additional cost of better closures, without condemning the manufacturer for putting his product in a more expensive container?

Mrs. Fribley: Consumers have accepted what has been offered them so far, with very few exceptions. It seems reasonable to say that, if a better type of closure could be devised, and if it served the working purposes better, it would be accepted eagerly. There is much discussion of packaging, not necessarily unfavorable but mostly relating to purpose and use. Many consumers wonder if more usable containers might not be perfected for the same or perhaps a slightly greater expenditure. Any intelligent study of packaging today shows clearly the direct relation between distribution, sanitation and packaging.

It seems reasonable to believe that intelligent and honest discussion and explanations of the economics involved would be most valuable to both distributor and consumer.

I am sure that better—more workable—closures will be accepted and paid for, if they are more substantial and better fitted to special products, and if the closure is easily demonstrated an aid to the consumer.

It must be remembered that much better closures are justified for those packaged products which are stored in the original container for indefinite lengths of time—that is, products used a little at a time. In such packages a slight increase in cost would be considered a saving.

However, I do feel that consumers would like to be told about these improvements. We would like to have manufacturers tell us what they are doing and why.

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So many times a package is designed with so little relation to its function in the home that the only explanation seems to be that men like to surprise and astound each other.

From the consumer's point of view I would ask: Don't spring too many surprises on us. We do not take them very well. Please educate us slowly. Don't expect us to change overnight.

It puzzles me that manufacturers can know so much about consumer preferences, and yet so often try costly experiments with so little understanding of the average housewife's daily routine.

In this matter of better closures a little note or letter, or an open letter to housewives would explain what the manufacturer is trying to do, and thus take each purchaser into his confidence, and create a feeling of business partnership rather than high-pressure salesmanship.

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STANDARDIZATION OF COMMODITIES IN CONTAINERS

By ALEX PISCIOTTA
Director of the Bureau of Weights and Measures
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THE standardization of commodities in containers is not a new problem for weights and measures officials. The subject has been discussed and dated for 20 years or more and, until recently, little has been done to arrive t a solution. From the point of view of protection to the consumer, the retailer nd the manufacturer, it is a matter of great importance, because their interests re adversely affected by the practice of packaging goods in odd-size capacities.

The historical background of standardization is lost in antiquity. The ustoms of buying, however, have not changed materially. For generations, ommon staple commodities have been purchased by the pound, or half-pound, or by the pint, quart or gallon. Such capacities were usually weighed or measured by simple weighing or measuring devices, and due to the more leisurely pace of living, few commodities were packed in advance of a possible sale. The ransaction of buying and selling was personal and informal, with the weighing or measuring done in the presence of the prospective purchaser.

With the advent of streamlined living and mass production, came the modern method of packaging. It was a time-saving device, cleaner and more convenient in many ways, yet the informality and personal contact were gone. Packaging became an accepted practice in every industry, and competition brought with it the abuses that invariably follow a new industry. One of these was the failure to pack commodities in the accepted standard capacities. Today, the sale by package is accepted and approved by the consumer. Hence, deceptive or misleading containers are a fraud upon her and ultimately react against the interests of the packer.

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Mr. Pisciotta is also actively associated with the National Conference of Weights and Measures Officials as Chairman of the Committee on Standardization of Packaged Goods and as member of the Legislative Committee. He is also Chairman of the Committee on Standards and Specifications for Proper Methods of Sale and Merchandising of Commodities.

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What do we weights and measures officials mean by standardization? We mean the selling of commodities in capacities in which the average consumer customarily buys food—the standard unit of weight or measure, the pound, the half-pound, the quart, pint, gallon, etc. These are capacities which the consumer understands, primarily because they permit of those price comparisons which are essential to intelligent buying. How much easier it is for a housewife to know the true price of a half-pound of bacon at 40 cents a pound, than the price of a 6-ounce package at the same price per pound! What housewife will ask for a 3½-ounce package of tea, or 14 ounces of coffee or 15 ounces of rice?

ODD-SIZED CONTAINERS

It is a matter of common knowledge that the average consumer does not pay particular attention to the net content markings on containers. The retailer, too, is often unaware of the contents of a container. With thousands of packages on his shelves, he has neither the time nor the ability to remember the quantities contained in each package of food on sale. In this connection it might be interesting to describe an experiment that was conducted in New York City on the manner of sale of odd-sized food containers. Seventy inspectors were sent out into the thousands of retail stores throughout the City and instructed to ask for staple packaged commodities, such as rice, tea, coffee, beans, peas, etc., by the quarter-, half-pound, or pound size. In a short period of time over 1,100 retailers received summonses for having sold these products, or offered them for sale, at a greater weight than the true weight contained in the package.

DECEPTIVE PACKAGES

Through a series of surveys, investigations and studies conducted by the Bureau, the background of the present situation emerged with great clarity. In most instances, packaging of commodities, when first attempted, was confined to the standard capacities of weight or measure. With the growth of competition, however, the 16-ounce package was reduced to 15 or 14 ounces. We found some instances where the same commodity was packed in the same size container with exactly the same design and brand, with two different capacities. For example, a particular brand of pea beans was packed in the same size container, with the same brand name, by the same manufacturer, both in 14-ounce and 1-pound capacities. The same situation was found with several other commodities.

A good example of this occurred in the sale of spaghetti. For many years this commodity has been sold and purchased by the pound. With the innovation of packaging all manufacturers packed it in 1-pound packages. A few years ago the manufacturer of a particular brand of spaghetti within our city thought of a way of increasing his sales by inducing the retailer to push his particular brand. In order to get the retailer's support, the manufacturer made

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it possible for him to derive an additional margin of profit. This was accomplished by reducing the contents of the pound package to 15 ounces. Soon thereafter, another manufacturer discovered that because of the incentive of the small additional profit per case, retailers were pushing his competitor's brand at the expense of his own. In order to meet this sort of competition and induce the retailers to sell *his* brand, he increased the retailers' profit by reducing the package to 14 ounces. The same cylindrical package, with the same design, color effect, and markings, was used with the new 14-ounce package, as had been previously used with the 1-pound package. As a result, not only was the housewife deceived into thinking she was still receiving the former 1-pound package, but even the retailer and jobber did not realize that she wasn't. We found bills of distributors of this particular brand which had been issued to retailers six months after the new 14-ounce package had been introduced, still billing their customers for 1-pound packages even though the packages had been reduced to 14 ounces for that length of time.

This off-standard package was not only a means of deceiving the housewife but, at the same time, it created an unfair cut-throat means of competition between these manufacturers. If it had not been stopped by our Bureau no one knows to what extent this practice would have continued. In this case the consumer did not gain, because the margin of profit was so small that it did not justify a reduction in the selling price to the housewife and, therefore, she paid the same price for the 14-ounce package as she did for the 15-ounce and former 16-ounce package.

ANOTHER EXAMPLE

Another example was an incident which occurred while I happened to be in a store. A lady came into a chain store and asked the clerk for a package of tea. The clerk asked whether she wanted a large package or a small one, and she said she wanted the large package. The clerk then inquired whether she wanted the 35- or 40-cent package and pointed to two separate brands on the shelf, one a red package and the other a green package. The red was marked 35 cents and the green was marked 40 cents. The lady recognized both to be nationally advertised and well-known brands of tea and selected the 35-cent package. After she had received the package and had paid for it, I stepped up to her and after introducing myself, asked her why she had selected the 35-cent brand. Her ready reply was "I save 5 cents, why shouldn't I." I then asked, "Are you sure, Madam, that you have saved 5 cents?" She replied "Of course I am." I then asked the clerk to show me the two packages. I called her attention to the fact that the package which she had selected for 35 cents contained only 7 ounces, whereas the package that she had not selected and which she thought would cost more, contained 8 ounces of tea. This meant that the price of both teas was the same, e.g., 5 cents per ounce. She was very indignant and blamed the clerk for "putting one over on

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her," as she expressed it. I explained to her that it was not the clerk but the manufacturer who had accomplished this deception.

As a matter of fact, hundreds of violations were procured on the sale of this product because it was sold for one-half pound. This gives one manufacturer a definite advantage over the other and has been responsible for the introduction of a great deal of this off-standard packaging. This was just as true of coffees, peas, beans, rice and other staple commodities. Thirteen-, 14- and 15-ounce packages of these commodities were introduced and sold to the unsuspecting consumer.

COOPERATION OF PACKERS IN STANDARDIZING

Whatever the reasons for the existence of the odd-size package, it became clear that something should be done about it. A conference of all dry-food packers, distributors and manufacturers in the metropolitan area was called in 1938 to discuss the matter. Surprisingly enough, all acknowledged the abuses that existed in the industry; all decried the growing tendency to break away from the traditional standard capacities, and all were pleased that weights and measures officials were taking the initiative. A gentlemen's agreement was made, in which the packers agreed to take immediate steps to return to the fold of standardization, just as soon as the existing supply of containers was exhausted. At the present time, due to the splendid cooperation of these packers, I can safely say that over 90 per cent of the food products now sold in the City of New York and packed in the metropolitan area are in standard sizes.

I do not intend to convey the impression, however, that all packers were as cooperative or as amenable. Some did raise objections on various grounds, but all of these stemmed from a desire to evade the issue. A few manufacturers of coffee, for example, who were packing this product in odd-size vacuum containers tried to convince me that it was impossible to obtain from the can manufacturer, a can even a fraction of an inch taller than the ones they were using, because such a can would collapse in the process of packing. This alleged physical constriction to a 15-ounce can was an insult to one's intelligence. When the can manufacturer was brought in, he was confronted with a 1-pound vacuum can and readily admitted that he made any size that a customer might request. A little "moral" suasion convinced these manufacturers that their coffee should be packed in standard capacities.

ATTITUDE OF SUPREME COURT

It may be interesting to note the attitude of the United States Supreme Court on the question of deception perpetrated upon the consumer. In one decision, the Court said:

> The law requires a manufacturer to be honest in his statement of the content of a package containing a food product, and it requires him to be honest in stating the truth of the labels put on it. It is the purchasing public, the ultimate consumer,

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whom the provisions of the law are primarily intended to protect. The law is not made for the protection of experts, but for the people, that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases, do not stop to analyze but are governed by appearance and general impression. It makes no difference that dealers in the article are not deceived. It is the probable inexperience of the customer that you should consider.

And to quote another:

> There is no duty resting upon a citizen to suspect the honesty of those with whom he transacts business. Laws are made to protect the trusting as well as the suspicious. The best element of business has long since decided that honesty should govern competitive enterprises and that the rules of "caveat emptor" should not be relied upon to reward fraud and deception.

Encouraged by the results of our efforts, we were determined to carry the question of standardization across state lines.

In June, 1938, I addressed the National Conference on Weights and Measures in Washington and posed the problem of taking national legislative action. It had become quite clear, from our study of standardization that the problem transcended state lines and needed some sort of Federal supervision or regulation. It was also clear that standardization of dry-food products in containers was only a small though important cog in the wheel.

CANNED FOODS

Most food products today are packed in cans, and therefore, standardization in this field became a matter of great importance. At the conference, a special Committee on Standardization of Packaged Goods was appointed, of which I was designated chairman. During the year that followed, the subject of canned fruits and vegetables and their juices, together with the packing of edible oils, molasses, honey and syrups, was gone into thoroughly. This phase of packaging presented new and more intricate problems of standardization.

The situation in the canning of fruits, vegetables and their juices, from the point of view of standardization, was found to be chaotic. A single commodity was packed in a can that varied only one-half a cubic inch in capacity from that of the next largest can size for that commodity. In this instance again, the consumer is in no position to make true comparisons between the canned products of one packer and that of another, and certainly the great number of sizes with their infinite differences in capacities add a great deal to the confusion of the bewildered consumer.

In making a study of this problem we were first determined to adhere to the fundamental principle of standardization, e.g., the packing of commodities in the standard capacities or units of weight or measure. It was felt that cans of fruits or vegetables could be readily packed in a 2-pound can as well as in the 1-pound 14-ounce cans now in use. By the same token, it was assumed that tomato juice could as easily be packed in a pint container, as in a 14-ounce container. A more critical analysis of the question, however, revealed a situation which necessitated a change in our views on standardizing canned fruits

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and vegetables. Due to the canning process itself, certain elements, such as the inherent physical and chemical characteristics of each commodity, its specific gravity and canning temperature, had to be taken into consideration. These factors, which are peculiar to this industry, made standardization in the usual sense, impracticable.

As I pointed out in my discussion of the standardization of dry-food products in containers, it is the purpose of the Bureau to take up and discuss the problem with the industries affected, for the possibilities of successfully promulgating legislation to correct abuses are considerably enhanced when the support of the industry is behind the measure. It is often necessary to be realistic and practical about the matter, to look at the situation from the point of view of the canner as well as the consumer, and to avoid such drastic changes in manufacture as would result in material, financial and mechanical loss. To insist upon standardization by fixed weights for canned fruits and vegetables would have resulted in the justified opposition of all canners and manufacturers.

The situation now may be analyzed as follows: Each commodity is packed in a number of can sizes. These sizes are also being used in the packing of dozens of other commodities. However, the weights of these commodities will vary according to the specific gravity, physical character, and canning temperatures required for each in the canning process. To pack in accordance with a fixed standard weight would require the creation of hundreds of new sizes, augmented in time by the introduction of new commodities to be packed in cans. Our problem, therefore, narrowed down to the elimination of as many sizes as possible, and particularly those sizes which would tend to mislead the consumer.

However, as far as canned fruit and vegetable juices, edible oils, molasses and syrups are concerned the principle of standard measure can be carried out. These products, we felt, could certainly be packed in standard capacities, because, essentially, a pint of tomato juice has the same cubical content or volume as a pint of olive oil. Although the process of manufacture and packing is quite different, the ultimate consumer would certainly benefit by such a change.

LEGISLATION PREPARED

The special committee was directed to prepare legislation to bring about the standardization of packaged commodities which it felt was necessary. The complaint is frequently heard that there is too much government control in business, but the fact remains, that it is frequently necessary for some governmental agency to step in and remedy conditions when business fails to do this for itself. A means for correcting conditions is afforded the industry through the agency of the Division of Simplified Practice of the National Bureau of Standards. In cooperation with the industry, certain standards or agreements are set up by the Division, and the industry voluntarily agrees to live up to them. In many instances, however, there are some members of the industry who re-

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fuse to sign such agreements, and often the whole structure collapses because of the obstinacy of such members and the competitive injustices that arise as a result. The Department of Commerce has no regulatory or legal powers to enforce such agreements. It was with these thoughts in mind that this legislation was prepared.

THREE STANDARDIZATION BILLS

Rough drafts of proposed legislation were sent to every weights and measures jurisdiction in the country. Consumer organizations and publications, governmental officials, trade journals, and representatives of all the industries affected were asked to study our proposals and comment on them. A flood of criticism and advice came pouring into our office, most of which was constructive, and all heartily in favor of the general principles behind the legislation. Finally, in 1940, three separate standardization bills were drawn up, some of the suggestions of our critics having been incorporated therein.

1. PACKAGING OF DRY STAPLE FOODS

The first standardization bill refers to the standard packaging of dry staple food products. It includes such products as peas, beans and other dry vegetables, crackers, biscuits, cookies, macaroni, spaghetti, noodles, rice, barley, cereals, flour, corn meal, bread meal and cracker meal, puddings and desserts in powdered form, salt, sugar, tea, coffee, chocolate powder, matzoth and matzoth products, nuts, candy, dry fruits, butter, cheese, lard, sliced meat, and other similar and related products. This means, in effect, that these products, whether packed in the customary cardboard or paper package or in glass and metal containers, must be of the prescribed standard capacity weights of one-eighth pound, one-fourth pound, one-half pound, three-quarters of a pound, one pound, one and one-half pounds, and multiples of a pound, with the exception of candy, which may be sold by numerical count when packed in units of 12 or less.

Since the preparation of this bill several other problems have come up, notably that of tea balls. It seems likely that in the new draft which will be submitted after we have completed our conference with the tea industry, we may provide a separate section pertaining to tea and tea balls. The question now under consideration is whether standardization should be made according to the weight of the tea balls in each package, or on the numerical count. A proposal will be submitted in the final draft. Another question under consideration, which concerns specialty flours and some desserts, is whether we shall insist upon the standards provided in the original bill or provide some exceptions. These matters are subject to further conferences to be held during this month, with the representatives of the industries involved and the representatives of the Food and Drug Administration who have shown a keen interest in these matters. Inasmuch as this first bill is Federal legislation, it is

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applicable only to the sale or shipment of these products in interstate commerce. The responsibility for enforcement is now placed in the Food and Drug Administration. Unlike the other standardization bills to be submitted, this bill does not provide for a board of standardization to rule on tolerances; this function is given to the enforcing agency, which prescribes the tolerances, net weight, markings, etc., for these products.

2. PACKING EDIBLE OILS, ETC.

The second bill provides for the standardized packing of edible oils, syrups, honey and molasses. Edible oils and syrups, must be sold on the basis of liquid measure, except when the quantity exceeds five gallons. Then it may be sold by net weight.

The first provision of this bill applies to containers of any description. It states that edible oils, syrups, honey and molasses when sold by liquid measure must be sold in quantities of two ounces, four ounces, one-half pint, one pint, one quart, one-half gallon, and one gallon and multiples of a gallon. We provide that honey and molasses may also be sold by net weight. The standard capacity for these two commodities, however, when sold by net weight, must be one-eighth pound, one-quarter pound, three-quarters of a pound, one pound, and multiples of the pound. It is interesting to note that in a survey made of the manner of sale of these products, it was found that they were packed for the most part in the capacities prescribed under this bill. However, it was also found that these products when packed in metal containers were often deceptive, in that dimensions for each capacity varied greatly. Thus, one canning company alone manufactures for the trade eight rectilinear half-gallon measures of different dimensions. It was deemed advisable, therefore, to select and fix the dimensions of cylindrical and rectilinear metal containers for each standard capacity size. Where cylindrical metal containers for certain required capacities are not being used in the trade, no dimensions are given. In the sale of these products, only three metal cylindrical capacity containers are being used in the trade today, namely one-half pint, one pint and one quart.

A board of standardization is created under this bill with the power to approve such other containers as the industry may require, in the future, because of the introduction of new processes or other methods of packing, and to permit the use of specialty trademark containers now in use, such as the can in the shape of a log cabin or other specialty containers of this type. However, the capacities must be in binary submultiples, or multiples, of the gallon or pound. The metal rectilinear containers with the dimensions prescribed under this bill are those most commonly used in the packing of these products today. They are the one-half pint, one pint, one quart, one-half gallon and one gallon.

The standardization board is to be composed of the Chief of the Food and Drug Administration, the Director of the National Bureau of Standards of the Department of Commerce, a representative of the National Conference on

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Weights and Measures, a representative of the consumers and a representative of the industry. This board may approve sizes for these commodities, provided they conform to the standard principles of weight and measure embodied in the bill. It may also prescribe the necessary tolerances in dimensions or capacities for the commodity or container involved.

3. CANNING OF FRUITS AND VEGETABLES

The third bill concerns itself with the standardization of canned fruits and vegetables and their juices. In the case of fruit and vegetable juices, we found that the basic principles of standardization could be easily applied. A liquid quart of tomato juice will have the same cubic capacity or volume as a quart of pineapple juice. Hence, the first provision in this bill includes the standard packing of these juices in containers of any description.

A study of the metal containers for fruit and vegetable juices now in use disclosed the interesting fact that odd sizes or capacities for these products were in general use. For example, we found containers of 12½ ounces, 14 ounces, 18 ounces, 20 ounces, 46 ounces, 50 ounces, 94 ounces, and many more. Some of these sizes are almost archaic, and the reason given for their use is that the industry is in the process of experimentation with the consumer to determine which sizes are in greatest demand. There is no question that in this case the experiment has been unduly prolonged—almost 30 years have gone by. The packing of these products in standard fluid capacities would ultimately render a great saving to the manufacturer and the consumer.

The first provision of our proposed bill, therefore, requires that fruit and vegetable juices in containers of any description be packed only in the following standard fluid capacities: 8 ounces, 12 ounces, 1 pint, 1½ pints, 1 quart, one-half gallon, 3 quarts, 1 gallon, and multiples of the gallon. We make an exception to permit use of the 6-fluid-ounce container, with the restriction that it be used exclusively for consumption on the premises. We thus eliminate the many off-standard capacities heretofore used. This was done because we are convinced that these sizes are very deceptive. No reasonable argument can be given for the existence of a 14-ounce and an 18-ounce container, or an 18-ounce and a 20-ounce container as against a 16-ounce standard container.

When we studied the packing of fruit and vegetable juices in metal containers we decided to adopt, as far as possible, the containers now in use which could be used to set up our standardization requirements. Thus, with the exception of three sizes, the eight dimensions given conform to the containers now in use for fruits and vegetables or fruit and vegetable juices.

It must be clearly understood that the dimensions of the diameters of the metal container are prescribed, and that the Board of Standardization established by this bill has no authority to change these diameters. It does, however, have the power to establish tolerances in the height of the given containers,

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whenever the necessity arises. We are fully aware of the fact that new or different methods of processing may demand a slight change in the height of a container. When these occasions arise the Board will act to meet the situation.

Inasmuch as no cylindrical metal containers for fruit and vegetable juices are being used in capacities greater than 3 quarts, it is provided that larger quantities of these juices, when packed at some future time, must be in quantities of one gallon or multiples of the gallon. Another important provision prohibits containers prescribed for fruit and vegetable juices from being used for fruits and vegetables, except where specifically allowed under other provisions of the bill; this, in effect, prevents the three new containers described above from being used for the packing of fruits and vegetables.

The latter half of this bill relates to the more complex problem of the standardization of canned fruits and vegetables. There is no question that there are an excessive number of can sizes on the market today. The exact number is shrouded in mystery, and has been difficult to ascertain, either because of the lack of knowledge or outright refusal on the part of the canners to advise us on this matter. It appears that there are a number of so-called "general" sizes of cans in use for these products in which the great majority of fruits and vegetables are packed. In many instances, a single can size is used exclusively for a single commodity. However, an examination of the situation disclosed the unalterable fact that much could be done in the way of eliminating sizes that tended to mislead the consumer.

Guided by these findings, we set to work eliminating some of the special sizes now in use. Our fundamental rule was to place as many of the special sizes as possible into the general size classification, since most fruits and vegetables are now packed in these general sizes. We also had in mind the important practical consideration of making these changes without creating undue hardship for the packers of these foods. Cubic capacities, dimensions, and physical characteristics of each food were considered. As a result, the proposed bill provides for seven general sizes. One of these sizes is restricted to the packing of fruits and the other to the packing of vegetables. The great number of special sizes now in use is reduced, under this bill, to 14 cylindrical and two rectilinear sizes. In short, the number of can sizes for fruits and vegetables under the provisions of this bill has been reduced to seven general and 16 special sizes. The effect of the bill would be to restrict the packing of over 90 per cent of fruits and vegetables to the seven general sizes provided therein. It should be especially noted that only the fruits and vegetables indicated for each special size can be packed therein. We are guided by the idea that eventually the industry will eliminate all special sizes and confine the packing of fruits and vegetables to the seven basic general sizes. Corn-on-the-cob in cans was excluded from our considerations, because the can size for this product is constantly changing. This is due to natural causes, the size of corn varying constantly with geographical and seasonal changes.

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The creation of a board of standardization under these bills was suggested by representatives of the industry. They felt that the dimensions of metal containers should not be so rigidly fixed as to prevent necessary changes due, for example, to new methods of manufacture, processing, or packing. The Committee felt that a member of the National Conference of Weights and Measures Officials should be on this Board.

Other provisions of the bill provide for its enforcement by the Food and Drug Administration. With the passage of this legislation by the Congress, the states could pass enabling acts similar to this in content and provide for their enforcement by the state or local weights and measures officials.

LEGISLATION GOING TO CONGRESS

It is the desire of our Committee to submit this legislation to Congress as soon as possible. A final draft will be submitted as part of my report to the National Conference of Weights and Measures Officials in Washington this June. Between now and then several conferences have been scheduled with members of some of the industries involved. You must realize that this question of standardization is nothing new, nor have these bills been prepared haphazardly. They are the result of many years of study, investigation and diligent effort on the part of those interested in this problem. George Warner, Chief Inspector of Weights and Measures of the State of Wisconsin first presented this matter before our National Conference in 1937. I was keenly impressed with the exhibit that he displayed at that time. Congressman Harry Sauthoff of Wisconsin presented a bill in Congress, known as the Standard Metal Container Act of 1937. This was followed by a bill presented by Congressman Andrew L. Somers of New York pertaining to the same matter although somewhat modifying Mr. Sauthoff's bill. Members of my Committee have continued to make studies and surveys of the situation.

If any of you are interested in any particular phase of these bills, perhaps we can arrange for a meeting of a committee of your particular industries or through your trade organizations before the final draft is prepared.

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Question: Has a tabulation ever been made, giving the amount of permissible free space in packages for dried products, in order to take care of shrinkage?

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Mr. Pisciotta: Yes. The general principle of weights and measures, in the packaging of certain commodities, is this: that you pack them full, to capacity, and not pack them slack in the first place. We also expect you to pack them a little more than the amount designated on the package, in order to make up for shrinkage. Then in the usual lapse of time it takes to get the package from packer to ultimate consumer, the contents will not have shrunk to less than the exact amount called for on the label.

If you follow that rule through, and we know that you are packing according to the rule, then in the event we find one of your packages that happens to be slack-filled, after standing a month or two, we will not consider it slack-filled. We will realize that it was packed full in the first place.

The Pure Food and Drugs Administration has tried to get up some percentages. I do not believe percentages can be worked out. If we were to say 1 per cent of a package, that might be all right for your box of peas, packaged at a certain point in the season, or in your particular part of the country, but it might not be correct for some others. The shrinkage or evaporation may be less or more, depending on the time you pack and the part of the country in which you pack. Therefore, I do not feel that any percentage should be established. Just leave it to us. Knowing that yours is the A,B,C brand, and that A,B,C brand does pack full, if we find a package that is not full, we will understand that that has come about because of normal and natural shrinkage that cannot be controlled.

Question: Your approach to this problem brings up a very interesting point in the development of a product up to a price. Mr. Hecht said that the Sears program works toward a price point that is acceptable to the consumer. Now, then, with this kind of a price policy, many manufacturers trying to set, say, a 10-cent price will have to change their weights or measures to make a 10-cent price possible. What has been your experience with the manufacturers in this respect?

Mr. Pisciotta: The so-called 10-cent seller has been one of the points of controversy between myself, members of my committee, and the manufacturers. It may be the goal of a manufacturer to put out a so-called 10-cent seller; but, frankly, a 10-cent seller just doesn't exist. What you intended to be a 10-cent seller is being sold in the self-service market for 6 cents, in the regular supermarket for 7 cents, and in the regular chain stores for 8 cents. In grocery stores you will buy that same item for 9 cents, and in the delicatessens it is sold for 10 cents.

It depends somewhat on the neighborhood, but even in the same neighborhood, different stores will have a different price for the same product in the same package. It depends on the character of the overhead of the establishment. So that which you intended as a 10-cent seller is no longer that. We

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have found the 10-cent sellers being sold two for 19 cents, or 3 for 25 cents. So that, if you restrict it to the standard capacities of units of weight or measure, your price will be either 8 cents, 9 cents, 10, or 11 cents.

I do not think the consumer has very much to say about the price. She will buy an article at the price at which you quote it, according to the price tag that appears on your shelf. Take, for example, a pound of meat. A pound of meat is 45 cents today, and 55 cents tomorrow. Do you want to keep that 45-cent price? You can do it. If you do want to keep the 45-cent price, you will give 16 ounces today, but tomorrow, because the price has gone up, you will only be able to give 14 ounces for that 45 cents.

You will follow that procedure through, not only on merchandise that is sold loose but also on merchandise that is sold in packages.

Again I repeat, the prices will take care of themselves, according to the character of the store and the retailer.

Member: Have the manufacturers brought up that point? If so, how do they say they would meet it?

My point is this: The only reason the supermarkets sell a 10-cent item for 7 cents, or 6 or 9 cents is that they want the customer to think he is getting it cheap at 6 cents or 7 cents or 9 cents, because a 10-cent value has been established for the package. How are the manufacturers planning to meet that problem?

Mr. Pisciotta: The only way they can meet it is to put in a 10-cent seller in line with the smaller denomination which we permit. As a matter of fact, there are no restrictions below the two-ounce package.

Now, comes the matter of the so-called 10-cent seller in teaballs. We do not want to be too severe in our rules—in spite of the fact that we are being sharply criticized by consumer groups, for giving in too much to the industries. (You ought to see some of the letters we get!) So we have said that we would provide for a package of 10 teaballs and no restrictions below that number. Therefore, manufacturers would still be protected as far as the 10-cent seller is concerned.

Question: If an article has been packed for 30 years in a fractional size and sold possibly in the number of several hundred million packages, do you feel that the consumer is being deceived, if she has been buying that package over that length of time?

Mr. Pisciotta: If she has bought the package over that length of time because she had no choice of any other, yes. If you have put up a package in an odd size for some reason that you know best, the consumer had no choice in the matter.

If you have a package containing 3½ ounces, and John Jones has a package containing 4 ounces, and somebody has another package containing 3¾ ounces,

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all of the same type of product, the consumer has not the slightest idea, in comparison, whether she is getting a bargain in buying your product, or in paying more for somebody's else product. My argument has been this: Given exactly even quantities, both of you starting out with, say, 4 ounces, the consumer has a basis for judgment. Then if you say, "I want more money for my product because I am giving you just as much as the next fellow, but my product is better", there is a real sales argument. Let difference in price, I say, reflect difference in quality. But all of you should start off from scratch by giving equal quantity.

Member: Say that this is a formula package—a dried soup package—containing 3½ ounces. That makes four servings of soup. Would you make it impossible to produce such a package?

Mr. Pisciotta: I would not make it impossible. But there has always been a question of what is a "serving." A "serving" to me, if I like your particular soup, may be double the amount you allow. If I don't like it, half that amount is a sufficient serving for me. So, what is a "serving"? It is an individual matter. That goes for puddings and other commodities.

You may, for example, say that a serving of Jell-O is about so much. Well, I just happen to be the type of fellow who loves Jell-O, and I want double the ordinary portion for my one portion. My children will take half of that. So, what is a "serving"?

Member: I would say that throughout the United States there are probably 40 or 50 million molds that use a standard measurement for a serving. A serving of Jell-O, or of any gelatin dessert, is pretty well established by the molds that are now in the hands of the public.

Mr. Pisciotta: I have molds of three or four different shapes and sizes. I make Jell-O in sherbet glasses or in a large dish from which I serve it. So, suppose they do have these molds? They can just go to work and put in a little more water or a little less. Incidentally, I have discovered, in spite of your formula, that I can add a little more or less water to the formula for Jell-O, and I will get just as good a result.

Member: Would you feel that you were protecting the public by asking them to change their habits of making desserts, to change the quantity of milk that they add, and to change the molds that they use?

Mr. Pisciotta: In connection with this particular subject, let's take, for a minute, specialty flours. I am still studying this thing, and perhaps I am wrong. But, I have been told that when making gingerbread with a particular kind of flour, if you put in a single drop of flour more than the directions say, it will not turn out right; and that if you put in a drop of water less, it will not turn out right, either. With that particular flour, you are to use "a cup." I say, what is "a cup"? Well, the measuring cup that most housewives use is the standard cup—about 8 ounces. Perhaps in that case a change in the

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capacity might upset the proper good taste of the gingerbread. That may be one of the commodities we may provide an exception for.

If you can convince us that puddings and Jell-O's should also be exempt, I can assure you we will also exempt those commodities. But we have not as yet been convinced that changing from 3½ or 3¾ to 4 ounces will create such a disastrous effect, so far as you are concerned or so far as the consumer is concerned.

Member: Would it be conceded that all Jell-O packages might be 3½ ounces? Would you change your standard in a particular field?

Mr. Pisciotta: Our idea of standardizing is this, regardless of capacities: to have everybody pack exactly the same. So that all the Jell-O in the world will be either 3½ or 4 ounces. But we do not want the next fellow to come out with 3¾. Let it be a standard capacity so that when a consumer is buying such a product she knows that she is paying more for one than she would for the other, because of better quality, and not because of difference in capacity.

Question: You are judging a product wholly on the basis of specific gravity. One of these particular products that has been referred to might have a service element in it. Is there a factor there that is beyond the measure of specific gravity?

Mr. Pisciotta: That is the reason why we decided not to standardize fruit and vegetables by weight. We gave up that idea and said that we would standardize by the numbers of the cans and not by weight, because we recognize that specific gravity has a great deal to do with it.

As I said before, and I will repeat it, the Board of Standardization has the power to increase the height or reduce the height, in order to meet the particular problem of your commodity.

Member: I would like to supplement what was said by another member here. He brought out the question of the number of servings in connection with a Jell-O or pudding dessert. I want to point out that, in the dessert industry the measure is not the amount in the package but that which will make a pint of dessert, regardless of its servings. We have in the dessert industry a package of gelatin which contains 3½ ounces. We have Rennet powder which contains 1½ ounces to the package, and we have a tapioca dessert or a cornstarch dessert which might have still a different weight. But every one of those dessert packages makes one pint of dessert. In the case of those desserts which we make with milk, we make them with a pint of milk.

Therefore, standardization on the basis of weight would not be utilitarian at all. It is not a question of the number of servings, but rather that each package makes one pint.

Mr. Pisciotta: Do you have any objection if, instead of my getting a pint of Jell-O, I get a pint and 2 ounces with just as good a result?

Member: My wife would!

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Mr. Pisciotta: It is not a question of so many servings; but, rather, that the total aggregate is going to be a pint, you say. Now, then, by changing your package to the standard weight, the result would be a pint and, perhaps, 2 or 3 ounces. Have you any objection to that?

Member: My wife does not know how to measure a pint and 3 ounces. She would have to put in a pint, and then add 2 or 3 tablespoons extra.

Mr. Pisciotta: Speaking of tapioca, or Jell-O? You would not have to worry about Jell-O, because all you add is just plain water.

Member: I have enumerated both milk and water desserts.

Mr. Pisciotta: Well, perhaps that would come in the class of specialty flours—that you must have a definite formula to follow in order to have the commodity turn out satisfactorily. There is a possibility that you may be able to convince us that those exceptions should be made. If you do convince us, then I assure you those exceptions will be made—provided, however, as has been pointed out, that you all agree on one uniform amount of each commodity. So that one manufacturer will not put out a package containing one amount of a certain product, and another manufacturer put out a different amount.

Member: Well, all those different amounts arrived at in the dessert field are calculated to make a pint of dessert from each package.

I want to point out especially that in the dessert industry, or in any industry in which you have a product which makes something for the housewife, it is quite different from selling a pound of rice, or flour. These prepared desserts are not sold by weight but by what they will make. If the standards were made so that all these desserts could be sold to make one pint, that would conform to the average family. Because, regardless of whether the servings are different, the housewife still knows that she can make four or five servings.

Mr. Pisciotta: But if what I had in mind comes about, she might make six servings.

Member: We hope she will not.

Mr. Pisciotta: Well, if you can show us that your ingredients, mixed with a certain proportion of other ingredients, will make up a final dessert, that would be one of the exceptions we might permit. There is no reason why we should not do it—only provided that it will be a standard, and that in that commodity you will always put the same amount in a package, and standardize it among yourselves.

Question: Our discussion so far has covered foods. Have you standardized anything in the field of other products, such as photochemicals?

Mr. Pisciotta: No.

Question: Have you done anything about moisture content?

Mr. Pisciotta: Under the Pure Food and Drugs Act, regulations will be

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promulgated to take care of that. We are keeping away from it, because it is being taken care of by that body.

Question: How does the Committee feel about dried foodstuffs, for instance, where you have two products, both in the same package, with different specific gravity? Would we have to have two different-sized packages?

Mr. Pisciotta: That was the manufacturers' original argument when we started the standardization of these packages. After they had exhausted their arguments, I was able to prove that they had a popular brand of the same pea beans, for instance, with 14 ounces in one box and 16 ounces in another box of the same size and shape. They wanted to use the same size box for all those commodities—with varying weights. The same size box would contain 16 ounces of split peas, but only 12 ounces of lima beans.

Now, I don't think you are going to find it necessary to go into too many different sizes; but where it is absolutely necessary, you will have to do it.

I believe you will find, if you will try standardization as the manufacturers have tried it in the metropolitan area, you can use most of your boxes and put 16 ounces in all of them.

Member: Not on dry weight products such as dry cereals, which are sold on the 4-ounce or 4½-ounce weight.

Mr. Pisciotta: The dry cereal business is another one where there is a great deal of abuse in slack filling. We want you to fill boxes to capacity in the very beginning. Then if we find one that is slack-filled on a shelf, we will pay no attention to it, provided we know that the package was filled to capacity at the time of packing.

You will find it almost impossible to use the same container for all these things. But if you use your ingenuity, you will be able to use the same container for a lot of them. You may not have nearly as many different-sized containers as you think. That has been the experience of those in the metropolitan area who have standardized.

Question: How do you feel about these new types of boxes with recessed ends, in which there is a depression?

Mr. Pisciotta: It is prohibited in the State of New York, and is also prohibited under the new Federal Pure Food and Drugs Act. The Federal law, the New York State law, and, I think, the laws adopted in many other States, provide that the container shall not be so formed, filled, or colored (I forget the exact wording) as to make it a deceptive package. If you push the bottom in, or have empty corners, then the package is so formed as to be misleading and deceptive, and it is prohibited.

Member: The reason for going to these recessed ends was to conserve material—to use a one-piece top or bottom with a recessed end.

Mr. Pisciotta: You are putting in more paper than you really need.

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Member: You have an overlap on the carton, top and bottom—three thicknesses of paper in most cases. If you put in a single sheet, you can make a recessed end out of it. Is a recessed end that is not visible from the outside permissible?

Mr. Pisciotta: It is not permissible. The wrong type of carton is being developed, I should say. I do not see any reason for it.

Question: Do you think that a rule which caused a manufacturer or manufacturers to buy a great many thousands of dollars' worth of machinery at this time would contribute anything to national defense?

Mr. Pisciotta: Generally speaking, that will not be necessary, although many people are trying to say it will be. It may be true in some few cases—but not at all to the extent that you think. Standardization is going to result, probably, in your eliminating some of the odd sizes you have now and using only those sizes that will be standard, and for which you already have equipment.

In some cases it may be that some small amount of equipment will have to be purchased in order to meet the requirements. But, remember this: We have said that this law should be passed now—however, if Congress wants to give you one, two, or even five years' extension within which to comply, it is perfectly all right with me—as long as we know that sometime, somehow, we will have obtained standardization. For 30 years we have been talking about this and nothing has been accomplished.

I might add, concerning the defense program, that its effect will probably be to advance standardization. If you are going to be asked to eliminate many of your sizes in order to conserve paper and other materials, you are going to be compelled to disregard some of your sizes anyway; and while you're at it, you might as well disregard those that are off-standard and retain only the ones which are standard.

Question: Take crackers and biscuits. There are hundreds of different packages. It would cost more than a million dollars to purchase the machinery needed, if we have to eliminate fractional-sized cracker and biscuit boxes. Would you feel then that a moratorium should be established for this industry for a while?

Mr. Pisciotta: As long as we pass the bill, I don't care how long the extension is. What I am interested in is the assurance that someday we will have standardization.

As far as the biscuit and cracker industry is concerned, I expect the greatest opposition from that quarter.

I visited a plant in New York and went over it very thoroughly. Perhaps they did not realize I took in as much as I did. They are now changing over from boxes and packing in cellophane bags. This is something new. If they are

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starting anew, why don't they start right and package in standard sizes?

You know, when I was a youngster, Uneeda Biscuits used to be packed in a big box. Now the box has shrunk and shrunk, and it is a much smaller box than it used to be. They changed the size of the package to avoid changing the price of the product.

The cracker industry can comply without nearly as much changing of equipment as they would like to make us believe. They are starting to use cellophane, and if they are doing that, they might as well start from scratch with standard capacities, so that someday we will have these thousands of different boxes eliminated.

Question: You spoke at some length of the standardization of the shape as well as the size of cans. Is it proposed to extend that into folding cartons, also?

Mr. Pisciotta: No, sir. Unless you think it is a good idea to go into that. But I would rather not.

Member: I do not think it is. But I wondered if you had it in mind.

Mr. Pisciotta: We took up the question of dimensions with these other things because of the impracticability of changing them according to standardization by weight. If we could have accomplished that by standardization of weight, then we would not have cared about the dimensions. There was an exhibit in Washington that showed 24 different-shaped cans that were all one-gallon size. You would swear many of them were larger, and many smaller—that is, that some held much more, and some much less, judging by the dimensions and shapes and forms. We are trying to cut that down to a certain standard cubic capacity, and about one shape.

We have not gone into that phase, with cartons, but if you think we should, we might consider it. We are not looking for trouble, but if you want, we will go into that field.

Member: We hope you will not.

Question: This tin I have here, which you are all familiar with, has a depression which, for construction purposes, is a little more than an eighth of an inch deep. It is about the same where the top comes off. I take it that you would not call that deception. You wouldn't call it deception if it were a carton, either, would you? But if we ran that depression up underneath, so that it was about a half-inch, so that the package would seem to be larger than it actually was, that would be a different matter. In other words, I take it you are willing to say there would be a reasonable amount of tolerance in relation to the construction phases?

Mr. Pisciotta: Yes. It is just a matter of trying to use common sense as to what is deceptive and what is not. That is why I am against setting down

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hard-and-fast rules as to percentages and dimensions on these things. As reasonable men, we can sit down and tell whether a thing is deceptive or not. The man who makes a deceptive package knows why he made it that way. He had one purpose in mind—to make it look bigger than it actually was.

Question: Mr. Pisciotta, are there any publications available on this subject that might be helpful?

Mr. Pisciotta: There are available mimeographed reports of my talks and of the reports of the Committee on Standardization in Washington. If you will address your request to me, at the Bureau of Weights and Measures in New York City, I will be glad to give you some material.

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DISPLAY AS A FACTOR IN PACKAGE MERCHANDISING

By W. L. STENSGAARD
President
W. L. Stensgaard & Associates, Inc.

IN trying to analyze such a complex problem as package and package design, which becomes more complex as we think in terms of assortments or displays of unrelated and competing merchandise within the store, or at the "point of sale," we need, I believe, to arrive at a simple denominator. This simple denominator is best expressed in the term, *visual rightness.*

IMPORTANCE OF VISUAL RIGHTNESS

We know that the human mind thinks in pictures rather than in words. We also know that the eye becomes a camera constantly taking and transmitting pictures to the brain, which then arrives at a "Yes" or "No" decision, in terms of "I Don't Like," "I Do Like," "I Don't Want," or, "I Do Want." The eye also decides quickly if this is the article or the quality or the value purchased the last time. Thus, by *visual rightness* we build up customer recognition for a good product, and thereby we establish repeat business.

Incidentally, for repeat business easy identification is very essential. Too many packages use merely lines or printers' rules for decoration instead of marks that provide identification difficult to counterfeit.

Most articles are sold in competition, and this means that they are displayed or offered to the customer in the same group or the same department and by the same salesperson. The customer makes the decision, and research has shown

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Ten years ago Mr. Stensgaard organized his own company, which today serves more than 75 of America's leading manufacturers with a service of product design, sales planning and display. Among his clients are such well-known companies as Jantzen, Hickok, Hoover, Interwoven, Bissell, General Electric (refrigerators), Bostonian, Toastmaster, United Whelan, Elgin, Robert Reis, Scovill, Palm Beach, Oneida, Stetson, Talon and many others.

This service is utilized by America's leading stores from coast to coast. His organization, with headquarters in Chicago, comprises today more than 200 people—with its Eastern offices at Rockefeller Plaza, New York, and Pacific Coast headquarters at Oakland, California.

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that 87 per cent of these decisions are made through the sense of sight. These factors therefore make *visual rightness* very important to successful distribution.

OTHER FACTORS

In any organization or business, we obviously strive for rightness, and not only must we have *visual rightness*, but we must also strive for *factual rightness*, and *policy rightness*, as well as for *product rightness*. To insure *factual rightness* we compile accurate records and accurate forecasts to improve systems, through intelligent fact-finding methods that give us the answer by fractions, thus eliminating more and more the necessity for estimating or guessing. In considering *policy rightness*, we visualize an organization thinking in terms of what is good, better, best for them, the distributor, the buying public—all for the purpose of establishing a product and the identification for the product. This policy must be far-sighted in thinking and planning, in order to be able to endure in this day of action and competition.

What I am trying to say is, that *visual rightness* is very important, but it cannot stand alone. I might also add that a company may be ever so right in its policy or product, but it cannot long afford to overlook the importance of the picture it plants in the mind of the consumer.

Sight is the most forceful of the five senses. Why do we consciously or unconsciously prefer one article to another, one individual to another, and so on? More and more in merchandising and retailing, or, for that matter, industrial products, locomotives, etc., we are coming to recognize the science which makes for *visual rightness*. People use different terms for this—Product Design, Industrial Design, Package Design, Knowledge of Colors, Store Arrangement, Good Taste—but we prefer to boil it down to the term, *visual rightness*, because it keeps constantly before us a complete picture of the final result we are striving for.

Usually *visual rightness* has a definite relationship to *functional rightness*, and for that reason not only results in better appearance, but also greater efficiency, and usually at no increased cost of production, except that which is easily amortized or absorbed by reason of increased sales. More important, the decline that inevitably takes place when we avoid essential change is usually forestalled.

The problem of *functional rightness* involves another important point. We must not forget to consider the appearance of the competitive packages with which our own package may be displayed. It sometimes happens that a beautiful single package loses heavily in effectiveness when it is combined with other packages. To use a couple of homely illustrations—a good-looking necktie worn with the wrong suit, or shirt, thereby spoils the appearance of all three. Put a good-looking chair, in a room, in a wrong setting and with the wrong colors, and the whole room would look wrong.

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ESSENTIALS FOR EFFICIENT MERCHANDISE PRESENTATION

These preliminary remarks are given so that we may better understand the basic reasons and fundamentals at all times essential to the finished result. We do not believe that good taste, good art or good layout ability alone can most intelligently solve any packaging or display problem. True, such experience can assist, but it can also overlook many factors important to the long life and true value of the project. In any assignment having to do with product change or proper setup for efficient merchandise presentation, we believe the following studies are essential:

1. Review past experience of the product and package in question. This includes history, volume and profit factors, sales and distribution.
2. Obtain information on competitive best sellers.
3. Find out reasons for competitive successes or failures.
4. Investigate competitive selling prices and mark-up.
5. By shopping at retail, purchase competitive packages to obtain facts about sales advantages.
6. Study locations in which products are sold, and establish results as to square foot sales, turnover, and ability to obtain better locations through possible revisions of package and plan.
7. Weigh the possible advantages to isolated displays as compared with showings with competitive products.
8. Find out whether costs will be reduced or increased, and whether increased costs can be profitably absorbed by increased volume.

All this information is important. When properly organized for study and comparison, together with consideration for revisions' probable life of effectiveness, and classification of volume and distribution wanted, these data will contribute greatly to final decisions affecting good looks, composition, color arrangement and all other details important to *visual rightness.*

THE FORMULA BOOK

Our next step in the problem of packaging and display concerns the simple elements that make for the proper formula. In any organization, determination of the formula usually involves many executives and many various departments. For that reason, we recommend the development of an engineering guide, or what we call "The Formula Book." In this book, first, we develop an outline of procedure acceptable to all. Next, we classify the elements such as trademarks, identifications, signature bands, style of typography, colors and combinations. It is highly important that we interpret, to each executive and individual concerned, the way in which this Formula Book is related to particular departmental problems.

Such a Formula Book may not answer 100 per cent of the problems, but if it covers 75 to 90 per cent of the answers on any large project it will elim-

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inate thousands of needless conference hours for discussions that many times serve to confuse, rather than to achieve *visual rightness*. The great difficulty in coordinating packaging and merchandise display developments is to get everyone to agree that there are fundamentals on such a job, and then to get them to concur on what these fundamentals are. Once this is accomplished you are on the way to practical results, provided, of course, that the assignment is in experienced hands.

Of course, the Formula Book is the result of many meetings, a great deal of study, many surveys, and considerable preliminary work. However, once the resultant decisions are boiled down and compiled in the Formula Book, and understood by all concerned, a method is provided by which the entire project can proceed with confidence and a minimum of delays. Moreover, the need for interpretation of various points seldom interrupts the program. Thus, the preliminary work is as important to an extensive packaging project as are the detailed working drawings, blueprints and specifications to the building of a transport plane, a ship, or a bridge.

Here, let me point out that too often packaging programs take little of this into consideration, dealing merely in good taste instead, and obtaining the hurried approval of an executive who may pass a package because it looks good enough to him, or who may feel entitled to make changes at random. The Formula Book offers a process through which everyone concerned with the subject, or the project, becomes acquainted with the facts and the reasons for policies, and thus many, many questions are answered before they grow to problem status.

Figure 1

The examples shown in Figures 1, 2, and 3 illustrate how, in one case, these formulas were actually translated into design, composition, layout and color. Thousands of packages were redesigned according to formula in this assignment, thus accomplishing in one year a task that would normally have required several years.

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Figure 2

Figure 3

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Again, let me emphasize the fact that *visual rightness* of a package has been achieved only when there are more people who think "it" looks right than people who think "it" looks wrong. When we say "people" we mean customers and not necessarily executives. All of us remember well when Mr. Ford told the public they could have any color car they wanted so long as it was black. All of us remember what cars looked like a few years ago. The difference today cannot be charged up to purely arbitrary changes in designs for the purpose of merely creating "new" cars. Rather, improvements in construction produced new lines and new designs that not only look better but are better, from a point of cost and service to the consumer. We have developed new metals and products of this type and, at the same time, larger dies which make some things necessary in design now, that were not possible a few years ago. This is true about small as well as large articles. Styles change slowly and, as a matter of fact, hardly any one of us noticed how much they changed over the period of a few years.

FUNCTIONAL DESIGN

We are living in an age of more and more functional design. By that I mean an article not only looks good but it serves every other purpose equally well. For example, streamlined trains not only look better but they run faster, ride easier and cost much less to operate. Therefore, streamlined trains are carrying larger loads and paying the railroads better, and we will see more and more of them because they have both *factual rightness* and *visual rightness.*

FACTUAL RIGHTNESS

Going back to the subject of *factual rightness,* in our language, this means facts about the worth or value of a product or a group of products to the dealer or retailer. Altogether too much space is given (and, for that matter, perhaps too much time, also) to the showing and selling of products that do not bring a satisfactory return for the space they occupy. The Controllers' Congress of the N.R.D.G.A. establishes annual facts regarding square foot sales, in all classifications of departments, in ratio to volume of the department and the total store. Smaller retailers hurt their volume and their profit by not being more familiar with this kind of retail arithmetic. For that reason, many manufacturers have found it practical to offer assortments or deals. This means a reasonable assortment of merchandise, with a display setup that will properly guarantee the showing of the merchandise on the counter, on the floor, in the department or in the window. This assortment is usually designed to show a proper balanced inventory, which will help to make for a repeat turnover; sometimes, also, these units are designed to help control inventory. Such control is very important, because in thousands of places little regard is given to the best selling item or colors or size. Looking at the counter, the clerk or retailer says, "Yes, we have that line." The difficulty is that he has pints, not quarts, thinking that when the

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customer wants a quart, he will give him two pints at the quart price, thereby reducing his mark-up or profit.

He loses a large number of sales because he does not have the right size or the best sellers. Therefore, again, display is not only helpful to the distribution of goods but it is very helpful to the resale of the merchandise. (See Figure 4.)

Figure 4

New materials such as clear plastics, as well as other types of plastics, will help to revolutionize much of "point-of-sale merchandise." Again, remember, the human mind thinks in pictures, not in words. It is for that reason alone that canned goods have taken to picturing peas, peaches and other canned prod-

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ucts on their labels. This is another safeguard for the manufacturer that his product will be properly visualized and respected at the point of sale.

"SWITCHING" AT POINT OF SALE

Too much "switching" takes place at the point of sale. A survey made only a few years ago revealed that something like 70 per cent of sales were switched in the mens' furnishing department. In other words, the customer called for a nationally advertised brand of shirt or sock, but, either the store did not have the right size, or color, or sleeve length, or the clerk did his job of selling another product because the owner instructed him to do so. In coffee, as I remember, the switching was only about 18 per cent—probably because the sense of taste was involved, and once a good-tasting coffee was found, it was somewhat harder to "switch" the customer. I know for a fact that, with one of the best brands of electric toasters, a good percentage of switching takes place at the point of sale because, usually, the salesperson is afraid that the customer will not pay the top price and therefore suggests something "just as good" for less.

I consider display the greatest policeman to guard against switching at the point of sale. Display not only helps the retailer to buy balanced inventory but, most of all, it helps him to sell in relationship to "best sellers." Chain stores have found display indispensable in connection with department and counter and sectional layouts by which inventory control in relationship to best sellers and volume are automatically handled. All of this properly arranged not only makes for *visual rightness,* but, as you can easily appreciate, it makes for *factual rightness* as well.

Manufacturers and distributors' salesmen must come to know more about retail arithmetic, and, for that matter, retail promotion and display language. The cow cannot talk to the chicken because they have two different languages. Manufacturing costs are discussed in different terms than are retail costs and selling. For example, retail mark-up is on selling and not on cost, but most manufacturers' salesmen think in terms of mark-up on cost. Retail promotions and activities are more temperamental than manufacturing activities. They are more seasonal, they are more dependent on the weather from day to day, and upon competitive offerings and situations. The manufacturer must have weeks or months to make a product. Generally the retailer must commit far in advance. The consumer will not follow this practice. He or she wants the article at the moment the season, the weather, and the pocketbook combine to be right.

PEOPLE LIKE PEOPLE

Human interest and sensible showmanship make selling with display more interesting. People like people more than anything else, and therefore your display story and your package story must deal only in terms of people. After all, they are your customers. They do the buying.

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No display program is practical unless it takes into consideration the various types of distribution. Solving the problem of the large retailer is not solving the problem of the small retailer. In any plan of distribution through retail there are at least three classifications of distribution to be considered. Retailers should also be classified by types of business. They differ in character and policy. This differential in stores makes for varying demands, in keeping with the interpretation of *visual rightness* in the particular class of store.

A manufacturer does not give all retailers the same line of credit. Neither should he think in terms of the same type of display for all. Floor space requirements differ by classifications and types and so does the required amount of inventory through which to get proper returns on the space occupied. A manufacturer can insure his retailers the greatest salability plus the greatest reliability only when he properly combines these very important factors: *policy rightness, factual rightness,* and *visual rightness.*

* * * * * *

Question: How far do you go on consumer acceptance tests with these new package designs?

Mr. Stensgaard: All of these developments are tested. This is done in several ways—by competitive shopping to obtain competitive facts, and also by actual counter or shelf condition comparison for mass effect and appearance. Testing is one of those things you do forever, and that, of course, is what brings about change. Experience and the ability to obtain facts and analyze them carefully, plus ability to design and merchandising experience, are the safest guides. Too much testing today involves inexperience and, sometimes, unwillingness to change; tests can, of course, be so conducted as to prove almost anything.

Pre-testing is important, but it is largely associated with the research that is done in the development.

Question: Isn't it a fact that there are probably too many "stuffed shirts" among both producers and consumers of packages and packaging materials, who sit at their desks and decide what the public wants? Whereas, if you actually go out and make a survey, the public may decide they want something entirely different. Isn't that field test essential for a new package?

Mr. Stensgaard: Well, yes and no. The fact that someone disagrees with us does not make him a "stuffed shirt." We get his thoughts and then of course explain our viewpoints. Next, we confirm our views by records of experience and facts gathered from surveys. The big task in packaging is to obtain confidence and change opinions for the benefit of the client.

Sometimes there is a blinding influence in what you are doing, because you are trying to compete not in a competitive sense but in a monetary sense.

We also find that some will say, "Why do you have to do that in red and gold? Why don't you do it in one color? Gold costs extra." I would rather

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do it in red and gold and sell a product competitively, than sell it for two cents less. An unbiased shopping survey reveals many things that a client considers unimportant to a packaging project; in reality, such facts are all-important. Some clients say, "Well, we used to do it that way." But maybe you did it too soon that way, or perhaps it was not exactly the right moment—timing is important. A good many things come out of the preliminary studies that are not discovered in an argument as to whether brown or some other color is right, because usually choice of color is an elementary part of the job.

It is always a bit difficult to make changes. All do not see alike. But patience and skilful experience have no substitute in attaining the best results.

That, again, is another reason why you need a bible, or as we call it, "a policy and formula book," so that everybody will think together and keep in the groove.

Question: I noticed here some of the lines have been wrapped in cellophane. Others are in cartons. A lot of pressure is being put on us by our client to wrap in cellophane and save the cost of the carton. But we feel that the carton is best. I was wondering why some of these were put in cellophane and others in cartons. Is price a consideration? What do you find is the general practice—cartons or cellophane wrap? And what about returns on the cellophane-wrapped packages?

Mr. Stensgaard: When you sit in with the merchandising people on a particular case, various reasons for doing one thing or another develop. There may be a chemical or moisture intake or evaporation reason for wrapping in cellophane. Or, it may be a competitive reason. There may be no good reason at all, except that it feels better and looks better, and the other fellow does not do it. Thus, if you do it the two packages will become a little different and a little more competitive.

The only reason you do any of these things is, first of all, to be more practical, to have a better mark-up, and to get better sales volume.

For instance, some bottles are wrapped in cellophane because otherwise there is a lot of dusting to do on the tops and caps of the bottles. The first thing you know your labels and tops and caps are dirty, and in dusting you only get half the dirt off, anyway. If there is anything that makes a customer think merchandise is old, it is seeing dust on it.

Question: Are you experiencing any difficulty with the Government on using B-flute liners?

Mr. Stensgaard: I cannot answer that specifically. Packaging gets more complex with more and more regulations—copy requirements, sizes and specifications by types. Therefore, any good packaging counsel or designer must have people who specialize in each phase of packaging. Otherwise, your packaging problem will involve a lot of mistakes. That, of course, is expensive and discourages packaging. Packaging involves much more than just design.

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EFFECT OF WAR ON BRITISH PACKAGING

By I. M. SIEFF
Vice Chairman
Marks & Spencer, Ltd.

WAR is a testing time. It is a period of abnormal life and activity. Society has been planned and organized for peace purposes. War strains and pressures distort and unbalance established structures. Much which has been built up by normal experience and practice is no longer effective. The efficiency of the industrial machine is geared to an accelerated tempo and to deeper intensity. Greater emphasis has to be placed on production of goods which during peacetime form only a small part of the normal economy. New principles and values become operative. Trading practices which have been sacrosanct are thrown overboard. The conflict between private enterprise and state planning assumes a different aspect. The needs of society suffer modifications and changes. So, many of the habits and usages of manufacturers and distributors, as well as of the consuming public, have to adapt themselves to conditions which normally would have appeared inacceptable.

WARTIME RESTRICTIONS

The outbreak of hostilities found British economy relatively unprepared

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Mr. Sieff took his degree in Economics and History, at Manchester University, and was sent by the British Government in 1917 as Secretary of the Palestine Commission, to deal with problems affecting the native population, as the British Armies advanced. At the Peace Conference he was attached to the Palestine section of the Middle Eastern delegation.

With his brother-in-law, Simon Marks, Mr. Sieff helped to develop the remarkable English chain store organization known as Marks & Spencer. This organization, comprising 236 stores, had a turnover of $150,000,000 during the last fiscal year, and showed a published net profit of just over $15,000,000. The company has a welfare organization second to none in England.

Marks and Spencer employs 20,000 people; and 70 per cent of its manpower has been drafted into the fighting forces. Last June the company initiated a communal feeding system in London, that has become a model for the rest of Britain.

Since 1931 Mr. Sieff has been Chairman of the Political and Economic Planning Committee, a group that has done considerable research in the economic and sociological field in Great Britain. This committee included civil servants, administrators, industrialists, bankers and economists.

Toward the end of 1940 Mr. Sieff was asked by the British Government to set up an organization in the United States for the purpose of expanding the volume of British exports to this country.

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to meet the Nazi war machine. It needed the strident whine of air raid warnings to awaken industry to the new menace which threatened its foundations. One fundamental problem had to be settled. Would the national slogan be 'Business as usual' as at the beginning of the last war, or was something more revolutionary to be planned and evolved? Could a war industry be superimposed on civilian production, or must civilian consumption be limited and restricted so as to free productive machinery and labor for war purposes in Great Britain? The answer to these questions was of fundamental importance to our approach to the life-and-death struggle we are engaged in. The reply was clear and definite. No consideration of civilian interests could be allowed to interfere with the expansion and intensification of the production of war supplies.

The British Government has, in the first 17 months of the war, by the use of mechanisms of controls, quotas and restrictions, transferred large productive capacities from civilian goods to war supplies. The stern pressure of war has enabled this to be achieved with the full cooperation of industrialists; indeed, manufacturers and traders have willingly put themselves, their factories and their organizations at the disposal of the various ministries, and with a full recognition of the sacrifices which are demanded of them. Among the first of the civilian essentials to be modified by Government controls of raw and semi-manufactured materials was packaging. Modern packaging ideas had to be sidetracked.

The British had already experienced in the last war the limitations on production and trading set by control of raw materials. That control was mild in comparison with its character during this war. As soon as it was realized that Nazi war preparedness prevented business from carrying on as usual, raw materials were directed mainly into those channels which transformed them into war supplies. Packaging was one of the first services to be curtailed, for many of its raw materials were needed for war products. The lowered types and standards of packaging are but a reflection of the restrictions which are placed upon trade and industry by the conditions of war. In the attempt to concentrate the maximum productive capacity on essential war supplies, the first things to be shed are the externals—products of a higher standard of life.

Modern packaging cannot be called a luxury. It answers the need for hygiene and convenience. The point where it contacts the science of merchandising and persuasion is where a war economy begins to feel in conflict with it. It is indeed an important aspect of merchandising; and merchandise problems in a country at war present new difficulties for the exercise of human ingenuity.

THE WAR PICTURE

I would like to describe one or two of these problems as a kind of background of the picture of a war economy. We have no illusions about what we

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in England are up against. We believe in the validity and rightness of our civilization, and its purpose. Therefore, everything which helps us to victory, however great the sacrifice, ought to be and is willingly and cheerfully accepted.

The atmosphere in England has indeed changed substantially during the last 12 months. A year ago boredom and suspense were dominant. Quite a large section of people tried hard to keep their normal life going as if the war were something to be regarded as an outside interest. The lack of movement in the field of war during the first months, hardened this attitude of mind. During recent months, however, we have emerged from what was almost a period of stupor brought on by the anesthesia of a subtle propaganda machine. The first weeks of air blitz raids resembled a continuous compulsory ride on a switchback railway. But recently, since December, we are in a phase where such rides are only occasional and are separated by long spells of quiet. The intensity of experience during 1940, and the fact that the war has leapt right out of the newspapers into our own homes, make 1939 seem remote and rather unreal.

While superficially, for instance in the matter of clothes, or of the style, quality, and type of container, we are in the downgrade, in everything moral and spiritual, which matters fundamentally, we are on a much higher plane than a year ago. There is a very satisfying sense of purpose, of unity, and of justification about the lives of very large numbers of people. When this is achieved in a democracy, as it so rarely is, the feeling of strength it gives is impressive. This feeling is reinforced by the belief that we now have the measure of what we are up against and that it is not as bad as our more lurid imaginations suggested it would be. Naturally, this heightened awareness and confidence make for much more general willingness to face drastic changes and to insist on a "new deal," not only after but during the war. Whereas a year ago, people still had the leisure and opportunities for making readjustments, but lacked the necessary guts and imagination, the reverse is now true. A great deal of activity not of a business character is handicapped by certain physical difficulties of shelter and transport, by the fact that so many people have to spend evenings as well as days in their offices keeping abreast of their routine work, and by a shortage of research staff library facilities and up-to-date published material. On the other hand, many problems are simplified by the removal of need of intricate compromises, and by an urge to find a replacement for a normal need, transformed into a luxury by war, by the simplest and most adequate substitute.

REGULATION OF TRADE

Regulation of British trade has reflected the progress of the war. The initial German blockade, German successes in Denmark, Holland, Norway, Belgium, and lastly, the fall of France, resulted in pooling plans, rationing, and finally, restrictions on almost every raw material. The fuller appreciation of the unlimited possibilities of export trade, strengthening of ties with America, all have encouraged more carefully planned trading activities. As a retail dis-

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tributor I am naturally most interested and indeed best acquainted with the merchandise problems affecting distribution.

Distribution is but the last link in the chain leading from the producer of raw materials to the consumer of the finished article. Any modification of normal production is bound to affect distribution. The limitations of production influence trends of distribution and seriously affect the quantity volume of sales. The decline in quantity volume brings implications in its train vitally affecting the character of the distributing organization. A too low quota may mean a closing down of a department and the dismissal of its personnel.

In Great Britain all planning ahead has to be regarded in the light of the declared Government policy to limit consumption of civilian goods. The Government has not deviated from this policy in spite of the hardship and sacrifices suffered by hundreds of manufacturers and retailers. Added to these difficulties are such inconveniences as blackouts, the need to hurry to air raid shelters as the evenings draw in, the early closing hours, and the actual reduction in shopping hours. Wage earners who have been accustomed to make their purchases on their way home from the factory or office now pass the shops quickly without entering, in order to avoid the danger which menaces them from the air. A great part of this business is permanently lost.

In any case, even assuming that there were no limitations on civilian buying, there would be an elimination of a large variety of goods, and concentration by manufacturers and distributors on simple styles of utility goods. The catalogues would be very much reduced and stocks smaller and cleaner. This tendency, naturally, has been intensified by limitations of production. During the last three months new Government restrictions have come into operation which have still further limited the amount of consumer goods available for the buying public. How far this has gone may be seen by the regulations, for instance, regarding cotton goods.

QUOTA SYSTEM

It must be remembered that the quota system which was introduced approximately six months after the war began, had as its purpose to limit in quantity the consumption of normal non-essential goods. The British Government in taking the long view knew that were the consumption to be automatically reduced, two consequences would eventually emerge: (1) that productive machinery not appropriate or fit for war supplies could be used for export purposes; and, (2) that the consumer purchasing power thus saved would be diverted to war savings.

The cotton industry was informed that it could trade with two types of organizations, the one called registered, and the other non-registered, accounts. To register or not to register was the question to be decided by each individual distributive business. Many were the heart searchings by traders before the full implication of registered and non-registered accounts was properly under-

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stood. I think it is only fair to say that only during the last few months have the full implications of this system begun to show themselves. Briefly, a registered firm could obtain unlimited supplies for export, but could only purchase for the home market the amount of a stipulated quota. If the registered firm sold in the home market to an unregistered account—usually the retailer—he could only dispose of the total quota allotted to him. He could export all the goods which were ordered from him. If the seller were unregistered, he could not purchase any goods for export, and so was limited in the home trade to what he could pick up from other people's quotas, which was either expensive, or difficult. By this means, an effective control was applied in retail distribution—as unregistered firms could never purchase more than the quota allotted to the whole industry.

How drastic this limitation could be may be seen from the fact that during the first quota period, namely, April 30, 1940, to September 30, 1940, registered accounts were permitted to distribute to unregistered accounts 75 per cent of the total of the yardage distributed over a similar period in 1939. In the period from October 31 to March 31, 1941, the quota for cotton is only 33⅓ per cent of the corresponding period of 1939-1940. To distributors these quotas mean serious curtailment of business. Indeed, a new type of enterprise in distribution has emerged—namely, the purchase of quotas by distributing firms who are so short of goods that they are prepared to pay other distributors a high percentage of profit for a quota to which the latter are entitled. I have known as much as 20 per cent commission being paid for quotas for goods of which there was an acute shortage. I believe this is a bad system, as it is contrary to the whole spirit of the Price of Goods Act and the prevention of abnormally high prices. Except for these cases, it is interesting to note that, although the demand for consumer goods is very much in excess of supply, there has been no serious inherent inflation. Prices have advanced but the reasons are mainly Government-controlled price of raw materials and the purchase tax; the Excess Profits tax, which is now 100 per cent of the profits in excess of the standard year, on the other hand, has made many traders resist the temptation to profiteer and the Price of Goods Act, with its penal clauses limiting the gross cash profit per unit of article, has been an effective deterrent.

CONTROL OF RETAIL PRICES

One of the most fascinating problems which academic economists have attempted to study is the control of retail prices. In peacetime various theoretical solutions can be devised. Demand and supply, however, act as a fairly good mechanism to keep prices aligned to purchasing power. In a country under the stress of war, new forces must be brought in, in order to prevent the disaster of inflation. War inflation, as was proved in 1914-1919, is a kind of rake's progress. The impoverishment which is inherent in it is hidden by the hectic flush of spiraling prices. Full payment is only exacted when the bubble has

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burst, and economic collapse has shown how unsound the foundations were for this sort of hollow prosperity. The British Government, recognizing this danger, has made a brave attempt to control retail prices and to make it impossible for prices to spiral.

By the Price of Goods Act enacted towards the end of 1939, the Board of Trade introduced a piece of legislation which has acted as an effective brake on rising prices. No country is free from unreasoning and unpatriotic elements. The distributive trade is no exception to this. When it was seen at the outbreak of war, that the Government was about to control certain raw materials and fix higher prices for them, a few traders did not scruple to attempt to hustle the public into a buying panic. A great many of us stood firm in our determination to keep prices at the levels at which they were, prior to hostilities. In my own organization, we decided to effect no alteration of price until two months had elapsed, when a better perspective could be obtained of the changed conditions.

The Board of Trade took upon itself the task of discussing with manufacturers and retail traders the gross margin of profit they were entitled to ask from the buyer. It was an interference which a great many resented, but its effect was a beneficient one. I was privileged to be chairman of a committee of retailers which discussed this problem with the ministry. It was soon realized that a genuine attempt has been initiated by the Government not so much to interfere with retailing as to insure two things: first, that retail prices would be kept in line with the purchasing power of the country; and second, that extra earnings received by the wage earner would be diverted to national savings. These two objectives, in essence, have been achieved. Where retail prices have been increased as a result of taxation or wage increases, it has been impossible for the retailer to profiteer. His gross cash margin has increased very little and his percentage gross margin has actually dropped. The psychological effect of this Act on the buying public has been reassuring, for they are convinced of the Government's determination to prevent inflation. Hoarding and unnecessarily large buying were exceptional.

I don't think that it is necessary for me to go into the technical details of the Act. In brief, it states that it is a penal offense to offer or sell goods at a higher price than that ruling on August 21, 1939, except in those cases where an increase in cost of production can be proved. Such increase only to be added to the price ruling on August 21, 1939, so that the actual net cash profit earned per unit of article shall be the same as on that date. The items which come under the category of costs of production were classified in a schedule attached to the Act. Tribunals were set up all over the country to receive complaints from the buying public and to investigate them. The central price control committee sitting in London is the sole body which can start proceedings.

In the first year of the war there were not more than 600 complaints actually received, and the majority of these were not brought into court. It speaks well for the law-abiding character of the retailers of my country and of their desire

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to do nothing which could militate against the interests of their country at war.

CONTROL OF RAW MATERIALS

The first materials to come under Government control were metals, alloys, hides, wool, aluminum, petrol, goods manufactured from wood pulp, edible oils and other food stuffs. These were the basic essentials for carrying on the war. While prewar stocks of raw materials lasted, the effect of the controls was not felt, but after the lapse of two or three months, industry began to feel the shortage and had to readapt itself to this new situation.

It must be remembered that no economic act is without its psychological effect, and that behind all that the Government has done there is ever-present the need for maintaining on a high level the morale, the power of resistance and the steadfastness of the British people. The first essential is to maintain their confidence. War is never won by ruling classes or by an administration. It is won by the temperament, the character and the stamina of the whole people. Hence, while the Government control of the main raw materials came as a shock to civilian industry, nevertheless it brought with it fundamental benefits.

LIMITATIONS IMPOSED ON PACKAGING

The British have adapted themselves ingeniously to scarcities and restrictions. One of the problems growing out of these restrictions concerns packaging, since there are shortages in glass, metal, wood and paper, particularly the latter —not only because imports from the Scandinavian countries are cut off, but because of the importance of conserving cargo capacities for war imports. The Government has issued strict orders concerning paper control, as for example that no advertising matter is to be placed inside wrappings, cartons, or containers, and that no article retailed may be wrapped or packed with paper unless it is absolutely necessary for protection.

Carton production is rigidly controlled by an order issued last May. Stock on hand at that time could be converted, but if material was not in stock, a license was to be obtained from the Ministry of Supply for this conversion. A license is necessary, too, before any paper or board can be imported. A campaign for eliminating the carton altogether is being launched by business leaders. A manufacturer has announced, "The carton trade has reversed its engines—instead of pointing out the advantages of cartons over other forms of packing, we are now telling customers that cartons are largely unnecessary. Our hope is that if these good deeds are unnoticed on earth, they may be recorded in heaven."

The Biscuit Manufacturers Defense Committee pays prices ranging up to one shilling for returned containers. Labels on packaged goods are limited to an area not to exceed 20 square inches. This has necessitated redesigning labels in the long narrow type of label—with vertical dimensions of 2 inches or less—which runs around the can.

Tinplate containers are prohibited for many commodities, such as for cat,

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dog, bird foods; cosmetics; biscuits; sweets; and for display purposes. Coffee may be retailed only in returnable four-pound tins. This order does not, however, affect packaging for export.

The British Government has taken over the entire output of aluminum, and further import has been banned. This requires the finding of substitutes by firms using collapsible tubes and aluminum closures, such as those used for milk bottles. Aluminum foil is no longer used for inner wrapping in cigarette packages. The pottery trades producing domestic materials are working full-time, making pottery jars on which metal closures are used, and decalcomania transfers are used widely for decorative purposes.

I refrain from detailing packaging restrictions and substitutions. Each country must solve this problem within the measure of its self-sufficiency—particularly in raw materials. A raw-material importing country like Great Britain has to face up to the policy of priorities in wartime. It must ask from each individual the maximum of adaptability and flexibility.

The ability of the human organism to adapt itself to changed conditions is scientifically accepted. Further proof is now found in the way the British manufacturer and trader is adapting himself to these wartime restrictions. My organization, a chain of 236 stores, is compelled, for instance—particularly in those towns where stores have been damaged—to seek new methods for the sale of our goods. In the past, our stores were open to all those who wished to purchase goods presented on our counters. Where this is no longer possible, we are devising other means to present our goods to our customers. We have made arrangements with business organizations who employ large numbers of operatives to lay out our goods in space allotted to us in their canteens. Thus the store goes to the buyer instead of the buyer's coming to the store. In some cases, we return to the old market-stall principle, and put up our goods on stalls in large empty garages—if such are available.

SIMPLIFICATION

The war has brought in its train the need for simplification. The urge to keep on inventing new varieties has gone. Prosperity brings with it certain types of waste, and there is none so subtle in its economic and psychological effects as an excess of diversification. In a highly individualistic economy, particularly where productive units are relatively small, there is a great temptation to the owner or manager to express his creative urge in a very special way. That he may be confusing the buyer by an excess of types appears to escape his notice. That he may also be increasing his costs of production seems to matter very little. The important thing is to press upon the buyer his own pet idea and "be damned to newfangled notions of mass production."

Paradoxically, war necessities and urgencies do not bring stagnation of mind. They direct human ingenuity into new channels. The most pressing need is to discover methods whereby complexities of life and structure

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can be transformed back into simple forms and lines without loss of esthetic values. War is a grim business, and men and women face to face with the terror of falling bombs tend to throw off a great many of the elaborate forms and habits which, in the prosperous decades, have complicated life.

I hope my statement gives some kind of a picture of trading modifications in Great Britain. Yet I cannot conclude without this further thought. Dominating every account, which a British subject may now give of any phase of life or of economic and social activity—however sincere his attempt to be objective and scientific—must be this one thought. If we must go through a holocaust of destruction until the evil of national hatreds is eradicated, what should be our hopes for the future? Can we tolerate a world war, with its attendant carnage, in every generation?

In partial reply to these questions, may I say that one of the most satisfactory developments in Great Britain currently is the rapidity with which reconstruction of the social and economic order is coming to be regarded, not as something which happens after the war, but, as something which spans and dominates policy both during and after the war.

This process, in my country as well as in this, has a long way to go; but I dare to state that it is moving fast. It is noteworthy that in British life, new men are taking key positions, in sufficient numbers, to bring a new spirit and tempo into public and governmental administration, and to reduce the lag between public opinion and action. Another extraordinary and encouraging feature is the growing tolerance of new ideas, new conceptions and new ideals. The attempt to make the war into a demonstration of patriotism, in the old sense, has utterly failed, and there has been no general urge to find public scapegoats as happened in the last war. If these are indications of the new spirit which will govern the postwar world, then, indeed, the price we are paying for its realization may be worthwhile.

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PERMEABILITY OF FIBER CONTAINERS TO WATER VAPOR

By WARREN E. EMLEY
Chief, Organic and Fibrous Materials Division
National Bureau of Standards

WE are all consumers. As such, you will surely agree with my estimate that the lowly pasteboard carton is a nuisance around the home. It is hard to open, it has no salvage value, and it takes up too much room in the trash pile.

Manufacturers, however, have an entirely different opinion. Manufacturers of pulp and paper recognize the carton as an important and rapidly growing part of their industry. Manufacturers of almost everything else have noticed that the cost of containers is an important item in their balance sheets, but they realize that good containers are essential, in order that their products may be delivered to us, the ultimate consumers, in serviceable condition.

One of the important properties of a container is to protect the goods against damage in shipment and against any deterioration which may be caused by climatic conditions. The atmospheric agent which causes most worry is water. Of course, if the contents are of such a nature that they would be seriously damaged by coming into contact with the water normally present in air, then some completely impervious type of container, such as glass or metal, must be used. But for the ordinary kinds of goods which naturally contain a certain amount of water, it is necessary only to prevent them from drying out or getting too moist, within the limited time from the packing of the container until its delivery to the ultimate consumer.

WATER CONTENT

Water is an essential constituent of many articles which are commonly sold in cartons. To illustrate the general presence of water in ordinary commodities, I need only enumerate the following figures—cotton, 8 per cent; paper, 10 per cent; wool, 14 per cent; leather, 15 per cent; wood, 15 per cent—as fair averages of the water contents of these materials. I should also emphasize the fact that, if any of these materials were deprived of their water, their

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physical properties would change so that they would be entirely unsatisfactory for present uses. This phenomenon is familiar to all of you who use cigars or cigarettes, which must be neither too dry nor too moist when they reach the consumer.

VAPOR PRESSURE

The water which is present in such a material is not a constant quantity. It varies with the condition of the surrounding atmosphere, and to a slight extent, with the past history of the system. Water in a lake exerts a vapor pressure which varies with the temperature, and which creates a constant tendency for the water to evaporate and escape into the air. The water in this sheet of paper is likewise constantly trying to escape, the only difference being that, at any given temperature, the vapor pressure of the water in the paper is quite different from that of the water in the lake. The paper has an affinity for water, which, in effect, reduces the vapor pressure. When applying this reasoning, consideration must be given to the past history of the system, for previously-wet paper has a greater affinity for water than previously-dry paper has. That is, paper brought to moisture equilibrium with the atmosphere from the wet side will contain about 1 per cent more water than the same paper brought to the same equilibrium from the dry side.

The factor which retards the escape of water from the lake or the sheet of paper is the vapor pressure of the water in the surrounding air. At any given temperature, a given volume of air will hold only so much water. If it contains less, there is a tendency for it to pick up more wherever a supply can be found; if it contains more, some will be deposited in the form of dew or frost. But the amount which it can contain varies with the temperature. Relative humidity is defined as the ratio between the amount of water which the air does contain and that which it could contain at the temperature specified, and is therefore a measure of the ability of the air to pick up water.

Applying this reasoning to the contents of a fiberboard container, we find that there is always a vapor pressure tending to drive water out of the goods, and a back pressure of the water vapor in the air, tending to drive water into the goods. The direction of movement of the water will depend upon the relative magnitudes of these two pressures. These are both varying continually; they depend upon the amounts of water already present in the goods and in the air, and also upon the temperature.

Circulation of the air must be brought into the picture at this point. When the air in immediate contact with the outside of the container has picked up its quota of water vapor so that equilibrium has been established between the two pressures, the air may stay in place and prevent any further action, or it may move away and be replaced by a fresh layer of air of different moisture content, and then the whole process of establishing equilibrium will have to be started all over again. Similarly, the layer of goods in contact with the inside of the

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container may delay the transmission of the water which it has picked up, to the layer next to it, thus affording limited protection to the contents as a whole. It is this latter action which makes it possible to ship quicklime in paper-lined barrels.

PAPER LINERS

Paper liners for barrels, paper bags, and the fiberboard of containers when unsized, are all readily penetrated by water vapor. Commercially, therefore, such paper products contain some material such as rosin size or asphalt, which will impede this penetration. It would be well if the penetration could be entirely stopped, but we know of no material which is 100 per cent effective, so we must be content with impeding with the maximum prevention possible. The following figures, taken from *NBS Miscellaneous Publication M127*, by F. T. Carson, give some idea of the relative resistance offered by materials commonly used as containers, expressed in g/24hrs/m²/mm Hg: (Grams of water passing through 1 square meter of the material being tested in 24 hours, when the differential pressure is one millimeter of mercury).

Paper	73 to 250	Glassine	35 to 65
Waxed paper	.04 to 120	same, waxed	.34 to 7.6
Regenerated cellulose	38 to 360	Cellulose acetate	.04 to 150
same, waterproofed	.06 to 1.6	Cellulose nitrate	1.4 to 15
Vegetable parchment	25 to 70		

Impedance involves time. The practical question may therefore be stated: Can we impregnate or coat the container with some material which will prevent too great a transfer of water through the container during its life, and under the conditions which it may be expected to encounter from the time when the container is filled until it is opened by the ultimate consumer?

Such a question permits of no general answer; the answer must always be specific for each case. How large a transfer of water is "too great" will depend upon the nature of the goods. Can they gain or lose half their normal water content without creating consumer dissatisfaction? Are they to be shipped from a dry climate to a wet one, or vice versa, so that they may be expected to gain or lose weight in transit? If so, what effect will such gain or loss have on the quality, or—if the goods are sold by weight—on the price? Are the containers designed for a life of a few days, like the paper milk bottle, or must they continue to protect the goods during the devious course through jobber, wholesaler, and retailer, which may take years?

EFFECT OF WATER ON CONTAINER

While the above picture may seem very complicated, it is by no means complete. For instance, the effect of the water on the container itself must be considered. If a paper product gets too dry, it will tend towards brittleness; if

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too wet, it will lose strength. In either event, it may no longer be able to protect the contents against rough handling.

If the container and its contents are cold, and are exposed to a warm moist atmosphere during shipment, liquid water will condense on the surface. While liquid water is not nearly so bad as water vapor in its ability to penetrate containers, the continued presence of the layer of liquid has about the same effect as though the container were surrounded by an atmosphere of 100 per cent relative humidity.

PROBLEMS IN WATERPROOFING

If, in the effort to make the container resistant to the penetration of water vapor, the use of water-repellent, impregnating or coating materials is carried to the extreme, one may have difficulty in sealing the packages or printing on them. Special adhesives and inks have had to be developed for such cases.

The manufacturer of containers for bulk foods and similar products has an additional problem, in that the waterproofing agent must not impart any flavor or odor to the contents. Perhaps the new plastics might be found suitable for such containers, since their worth has already been proved in linings for tin cans.

LACK OF KNOWLEDGE ON RELATIVE ABILITIES

I think I have said enough to indicate that the selection of the best container for a given purpose is not a simple matter. Such a selection should be based upon facts. There should be available a table showing the relative abilities of different kinds of containers to resist the passage of moisture and to withstand rough handling. Unfortunately, no such table exists. We not only don't have any such facts; we do not even know how to get them.

There are methods for measuring the bursting strength, tensile strength, tearing strength, water vapor permeability, and many other properties of paper and paper products. These will give definite, comparable information about the materials of which the container is made. But they give little information about the quality of the finished container. If the container board has a certain water vapor permeability, what will be the permeability of the container as a whole, when the board has been bent at right angles, has been subjected to the racking and impact strains incident to shipping, and has been stored on some dealer's shelf for a year or two? Especially, what will be the permeability at the seam where the container is sealed?

There is a method for measuring the compressive strength of containers. There is also the familiar drop test for measuring the bursting strength of a filled bag. These are steps, though very short ones, in the right direction. Some accelerated aging procedure is obviously needed, because we are interested in the properties of the container, not when it is first made nor even

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when it is first filled, but when it reaches the ultimate consumer, some years from now.

SURVEY UNDER WAY

The first step in the solution of the above problem is to make an intensive survey of the field, to develop, adapt, select, or in some way get a set of testing methods. These should be designed to measure the relative abilities of different kinds of containers to protect the contents during shipment and storage. They should measure the properties of the containers themselves, and not of the materials used in making the containers. They should measure what the properties will be at some future date—not what they are now. This development of testing methods is in itself a research problem of considerable magnitude. I am happy to be able to announce that its solution has been undertaken by the American Society for Testing Materials. When such methods become available, it will be a comparatively simple matter to test all kinds of containers to get the data necessary to construct the table mentioned above. Then the purchaser of containers need add only one more column to this table—price, and he will have before him the facts needed for the selection of the best container for his immediate purpose. The problem does not end with the selection of the best container; he must see to it that the container is properly filled and sealed.

If it runs true to form, such a table would also point out certain glaring defects in certain types of containers, which would immediately be remedied by the manufacturers.

Statistics published by the Manufacturing Chemists Association show that the cost of containers is almost as much as the cost of fuel and power, although this of course includes glass, metal and wood containers as well as paper products. Census reports show that the American public is spending upwards of one-half billion dollars annually for fiber containers and paper bags. Surely the lowly pasteboard carton has achieved a place in our industrial life, and a research program directed towards extending its uses is quite in order.

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VERSATILITY IN GLUING MECHANISMS

By DR. F. C. CAMPINS
National Starch Products, Inc.

I. Need for Versatility

A. WIDE VARIETY OF PACKAGING MATERIALS

THE wide variety of new packaging materials, made infinite by the countless printing effects achievable on each surface, forces packaging to new levels of beauty; and imposes new problems due to their various absorbencies, resiliencies, etc.

This beauty is trending more and more not alone towards satisfying appearance, but also preserving the contents against aging and deterioration. This "ageproofing" usually consists in fighting the elements that tend to disfigure appearance and mar the freshness, and involves mainly restraining the traffic of moisture, solvents, grease, light, oxygen, and dirt through the surface skin.

B. WHY THESE NEW PACKAGING MATERIALS OFTEN DEMAND CERTAIN (UNUSUAL) TYPES OF ADHESIVES

Many adhesives in wide commercial use contain water or organic solvents. Therefore, the effect of the restraining of the traffic of moisture, solvents, grease, etc., through many of these new packaging materials, must be carefully considered in deciding the choice of adhesives.

This is clearly brought out by Table 1, which indicates how water-repellency and moisture-vaporproofness of the material may render aqueous adhesives useless, and how greaseproof stocks restrict the use of organic solvent types of adhesives. In fact, all stocks which do not permit the diffusion of gaseous materials would render all solvent types of adhesives futile.

Thus it is seen that the adhesive demands are the logical outcome of the rather unique properties possessed by these new packaging materials.

THE AUTHOR Dr. Frank Campins is in charge of Field Engineering work for the National Adhesives Division of National Starch Products, Inc., and is widely known throughout the packaging industry as an authority on the engineering aspects of adhesives, on which he has published several papers.

He was Fellow in Chemical Engineering at Massachusetts Institute of Technology, and is a member of the American Institute of Chemical Engineers, and the Technical Association of the Pulp & Paper Industry, before which he has read papers on correlating the properties of adhesives to the structure of the paper.

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Table 1

Ageproofing Property of Packaging Material	Type of Adhesive				
	Solvent Types		Hot Melt Types		
	Aqueous Adhesives	Non-Aqueous or Organic Solvent Adhesives	Aqueous or Hot Flexible Glues	Resin Types	
Water Repellent Materials	Usually N.G. as they cannot spread on or adhere to the surface	Usually O.K.	Usually N.G.	Usually O.K.	These materials as a class demand organic solvent types of adhesives or thermoplastic methods of adhesion.
Moisture (Vapor) proof Materials	Usually N.G. as they cannot dry, because the moisture cannot diffuse through the stock	Usually O.K.	Usually O.K.	Usually O.K.	Where—say, in the food field—odor of the adhesive may be objectionable, we are frequently restricted to thermoplastic types.
Greaseproof Papers, parchments	Usually O.K.	Usually N.G. as they cannot dry, because the solvent cannot diffuse through the stock	Usually O.K.	Usually O.K.	Here we are restricted to aqueous adhesives or heat sealing adhesives. Where the material is both moisture-vaporproof and greaseproof the choice of adhesives may be limited to thermoplastic types.
Non-Porous Stocks (which in general do not permit the diffusion of gases)	All solvent types of adhesives are N.G. as they cannot dry because vapors cannot diffuse through the stock		Usually O.K.	Usually O.K.	

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C. VERSATILITY NEEDED TO HANDLE BOTH THE MATERIALS AND THE ADHESIVES

Joining these adhesive demands to the special properties of the materials, it is clearly recognized that versatility is needed not alone for the adhesive applicator, but also in the handling of the materials which may be harder to fold, and which may slow up the rate at which the adhesive sets.

A study of Table 1 indicates also the trend of tomorrow for package consumer, machine designer and adhesives fabricator. However, while the pinnacle of the packaging pyramid may be lined adhesive-wise with thermoplastic and/or other currently unusual methods of adhesion, there will always be a lot of territory to be covered between the pinnacle and the base, with a corresponding decline in the demands on all concerned.

II. Basis For Versatility in the Packaging Mechanism

A. VERSATILITY BEGINS AT THE FEEDER

The feeding of the new materials into and their handling and forming on the machines usually involves several problems, due to one or several factors, such as increased resiliency, curling tendency, lack of grain to help fold-formation, and inability to withstand sudden tensile strains.

These factors show clearly why each new packaging success entails the careful study of various details by responsible parties; and that collaboration is the road to success is apparent from the fact that, frequently a mere variation in the thickness of the material may decide its practicability, from the standpoint of feeding and handling properly on the equipment.

B. VERSATILITY IN THE APPLICATOR-ADHESIVE MECHANISM

All adhesive materials must be fluid at the time of application, i.e., in the applicator mechanism, in order to:

1. Spread the glue over the surface of the glue applicator (roll), in a film the thickness of which is regulated by drainage, squeeze, or scraper action.
2. Permit this film to be readily pulled away from the glue roll, and so transferred to the particular object.
3. Allow the adhesive in the pot to flow to and follow the glue roll, by maintaining a constant level in the glue pot, or by permitting flow towards the roll.

These flow properties must be retained under operating conditions in a glue applicator which is exposed to room conditions, with the applicator-adhesive unit striving to adjust itself to these room conditions. Nearly all adhesives, after they have fully adjusted themselves to (i.e., after they are in equilibrium with) existing room conditions, are not fluids but solids or plastic solids (so as to give a good final bond). Hence, the satisfactory maintenance of flow

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properties under operating conditions in the applicator-adhesive unit demands that the adhesive be restrained from adjusting itself to room conditions: and this most usually means that the adhesive must be restrained from evaporation and cooling.

Thus we can say that *the basis for satisfactory operation and versatility of the applicator-adhesive unit is generally the ability to maintain the adhesive product at nearly constant fluidity under the conditions of evaporation and cooling that may prevail in the applicator mechanism under operating conditions:* and that the rate at which the fluidity of the adhesive decreases (which is a measure of its rate of approach to the solid state) for a given applicator-adhesive combination will determine the practicability of the unit. Thus, where this rate of change is rapid, the applicator-adhesive combination is impracticable. while a negligible rate of change indicates ease of operation. This is indicated graphically in Figure 1.

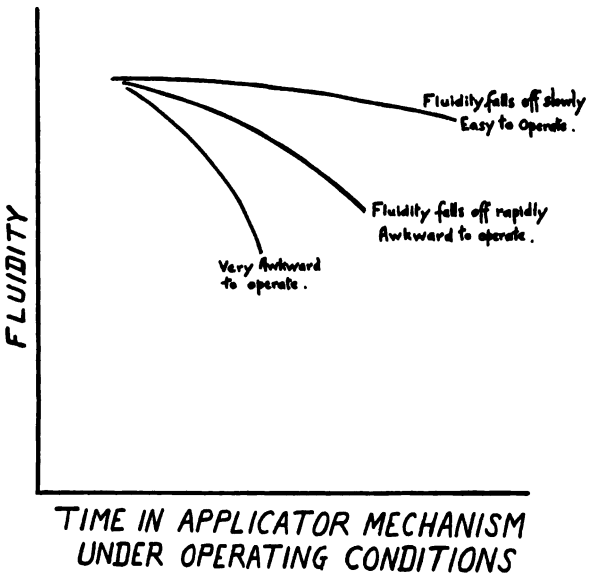

Figure 1

The joint involvement of adhesive and mechanism in the fluidity decreases because:

1. The applicator by giving more or less opportunity for evaporation (concentration increase) and/or cooling (temperature decrease) can in itself increase or decrease the rate at which the fluidity of a given adhesive changes, while
2. the adhesive in itself may have such physical characteristics that under operating conditions it is very indifferent or very sensitive to evaporation and/or cooling.

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These conditions are set forth in Table 2 for the various standard types of adhesives and applicators. Thus:

1. The direct applicator which uses a narrow disc to place a narrow continuous web of adhesive may readily be covered to minimize evaporation, or kept at constant temperature by thermostatic heaters. Hence, all types of adhesive products may usually be exploited on this equipment; a fact which may frequently be used to advantage by production men.
2. Transfer-applicator uses two or more glue rolls, one of which is often segmented. These rolls carrying their films of adhesive act as film evaporators and coolers. Hence, volatile solvent and thermoplastic types of adhesives are usually unsatisfactory.
3. Print-press type of transfer applicator has added cooling and evaporative surface, thereby further limiting the use of volatile solvent and thermoplastic adhesives.

C. VERSATILITY IN THE SEALING MECHANISM

After being fed through and having received an application of adhesive, the mechanism must now be able to satisfactorily fold and/or bring the parts together, so that no strain is put on the adhesive bond until it has had time to set—i.e., to change from the liquid to a semi-solid state, so as to withstand any tension on the joint.

Since many of the new materials greatly restrain the traffic of water and/or solvents either because of their properties or because of being printed or overcoated, obviously these materials must necessarily restrain the rate at which aqueous or solvent types of adhesives set. Hence, the achievement of the new package may well involve provision for this setting time, and such provision will favor versatility.

It is well to note that damp stock, or humid weather, or a change in the type or coloring of the stock, usually slows up the rate at which aqueous adhesives set. It is therefore wise to make the sealer mechanism versatile from this standpoint.

Even for thermoplastics, it is desirable to provide some means of holding together the freshly sealed parts in a strain-free manner until the adhesive cools and develops strength.

III. How These New Materials May Be Run On Standard Equipment

A. POLICY

The foregoing discussion indicates the many problems that have to be solved before the new package reaches the market. The manager of the successful packaging department does not throw up his hands over these problems,

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Table 2

Liability to Fluidity Decrease on Exposure to Room Conditions	Type of Adhesive				Some Standard Types of Applicator Mechanisms		
	Solvent		Hot Melt		Direct Application	Transfer Application	
	Aqueous	Non-Aqueous (Organic Solvent)	Aqueous	Resins		Simple Transfer	Print-Press Type of Transfer
By Evaporation (loss of water or solvents)	Little	Great Especially with volatile solvents	Little	Nil	Little May be covered	Great with volatile solvents	Very Great with volatile solvents
						Due to increased evaporative surface	
By Cooling (loss of temperature)	Negligible (used at or near room temperature)	Slight A little cooling due to evaporation	Fair (used around 130°-150° F.)	Very Great Especially for products used considerably above room temp., e.g., 250°F.	Negligible Little cooling surface; hence readily kept at constant temperature. May be heated.	Fair	Very Great
						Due to increased cooling surface	
Applicability to Various Types of Adhesives					As solvent and temperature losses are readily controlled this mechanism is applicable to *all* types of adhesives.	Awkward for volatile solvent types and high temperature hot melts.	Very awkward for volatile solvent types and high temperature hot melts.

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because he knows from experience that, acting as a captain, he can call together a team of machine designer, material supplier and adhesive fabricator, so that by their joint collaboration, material, machine and adhesive may be efficiently adapted to form a commercial package.

Frequently simple and practical expedients are developed through this teamwork that hasten the solution of the problem.

B. A FEW EXAMPLES OF PRACTICAL MEANS OF ACHIEVING VERSATILITY

As previously stated, the applicator-adhesive unit can frequently be covered or heated, thereby extending its applicability and utility. Sometimes, changing the location of the glue pot will enable the adhesive to build up more tack; this measure is used in some tube winding machines but may well be applied to other fields.

In some cases it is possible to exploit the two-sidedness of the material and so avoid the more difficult problem of face to face adhesion. Thus in tight-wrapping, where permissible, it is easier to seal short flaps than long ones. For short flaps, adhesion is either back of wrap to chipboard and/or back of wrap to face of wrap; for long flaps, adhesion is face to face.

Another approach, in two-sided materials that are made by over-printing or lamination, is to leave one edge uncoated and use this for adhesion. The objective is to provide some surface that will permit the water or solvent to leave the adhesive.

Heat application will melt away wax from surfaces and so frequently simplify the adhesion of waxed papers. This feature becomes very important where because of rubber rolls a solvent type of adhesive would be impractical.

Suction cups have been successfully employed to relieve the adhesive from having high initial tack, and thereby extending the versatility of the equipment.

The list of individual cases could be continued; but these few serve to illustrate the necessity for and efficacy of teamwork by machine designer, material fabricator, and adhesive supplier in producing the real answer to achieving versatility on standard equipment.

* * * * * *

Question: Is it possible to run emulsion type adhesives in the direct application type of equipment similar to the Q-2241, and what precautions have to be taken?

Dr. Campins: Yes, it is possible. The important factor there is, what phase of the emulsion is continuous? If the continuous phase is aqueous, then that material will behave as an aqueous glue. For direct application, however, even if the solvent phase were continuous, you could still obtain satisfactory operation by covering the glue pot to prevent evaporation of volatile solvents.

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Question: If the glue foams up in the running of a gluing machine, what does it mean? What kind of base is that?

Dr. Campins: Foam is invariably associated with the whipping in of air bubbles into colloidal materials, and the necessity for glues being colloids is inherent in the fact that, as a glue dries it should retain a continuity of substance as distinct, say, from common salt, which will crystallize in small pieces.

Now, in trying to eliminate foam from a material, a common expedient is to incorporate into that glue some chemical or substance that will tend to collect at its surface and so reduce the viscosity at the surface. Thus, as bubbles tend to form at the surface, they would pull with them some of this low viscosity material, resulting in a weak and unstable bubble, and consequently a non-foaming article.

Member: What kind of material would that be, though?

Dr. Campins: That type of thing would usually be a liquid of low solubility and/or low surface tension, so that it would tend to accumulate at the surface. It is desirable that the de-foamer have a very low volatility so as not to evaporate away from the surface.

Member: I am talking particularly about gluing to foil papers.

Dr. Campins: The de-foamers used have to be geared to the particular product. In other words, in many cases a very good de-foamer may react chemically with a certain ingredient of a specific glue, to render it useless for that glue. Consequently, you have to move over into another class. But most de-foamers, as used in adhesives, exploit the principle just mentioned. It would be necessary to know the exact nature of your specific product before making a definite recommendation.

Question: What is your opinion regarding the tempering of glue before it is applied to the spaces to be glued on? Most companies have the machines (labeling machines, for instance) run the glue a while before applying it to the package.

Dr. Campins: One purpose of letting the freshly gummed-off surface temper, before adhering it, is to allow the adhesive to build up enough tack so that it will be able to fight the resiliency or spring in the stock. But tempering itself does not help the ultimate bond any. In other words, if the material will ultimately act like a Scotch tape, or give you a plastic type of bond, then the harm is not great, although in some cases it is possible to let tempering go so far that though it will hold down the material, there is no real bond into the surface. In the case of aqueous glues, where you are often dependent upon the material giving anchorage into the two faces, it stands to reason if you let the glue temper too far, it will lose all chance of being alive enough to give a good penetration bond on the receiving surface. It may give you a suction bond while it is still wet, but its viscosity has jumped too far up for it to achieve anchorage into the other surface.

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Just as tempering the adhesive is often used to combat the resiliency of the stock, it is also possible to approach the problem from another angle—i.e., by tempering the stock itself and reducing *its* resiliency. This is, in fact, frequently done.

Question: What is your opinion of the minimum amount of time that is required to seal ordinary kraft boxes—No. 42 and 47?

Dr. Campins: This is a very basic question, especially from the standpoint of versatility of the gluing mechanism. Thus give me the driest day in February, and the choice of the driest kraft available, a good machine operator, and I will seal a case in record time—maybe 15 seconds. Tomorrow, send that same case-sealing machine down to Panama where the paper is damp, and your whole time structure will change.

If the world stayed constantly at 100 degrees humidity, no aqueous adhesives would function irrespective of how much time we had, because stock would be too damp.

Question: What has been your experience in trying to get adhesion between cold gum and a highly glazed paper?

Dr. Campins: Glazed paper covers a lot of territory, but as the range of papers has increased, the adhesives industry has been keeping pace with them. Many glazed paper surfaces are readily adhered with cold gums; and some give trouble only because, on the packaging machine, the bond has to be secured in a very limited time.

For work with the cold aqueous glues that are most widely used, the glazed surfaces that are readily wettable and have absorbent fibers are usually easy to adhere. In fact, applying the adhesive in a thin, uniform film implies that the surface will accept and allow the material to spread thereon. If for any reason it is going to creep on that surface, as on waxed paper, then, obviously, you are wasting time.

Now, when it comes to certain more difficult or less receptive surfaces, the difficulty arises mainly in that the adhesive sets on the absorbent surface and so does not have a long enough wet-life to negotiate a penetration into the harder surface. In some of those cases it is possible, say, to apply a wet sponge on that surface, in other words, to make that hard surface damp, solely for the purpose of extending the wet-life of the adhesive after you have gummed that material on to it, and drawing it into the hard face.

Member: We have had that same problem and tried wetting, first with water and then with a solution of sodium carbonate, and then a solution of urea. I was wondering what someone else's experience had been.

Dr. Campins: Basically, the problem is one where your adhesive cannot extend its wet-life long enough to negotiate the tougher surface. It dries back into the easier paper rather than going into the hard one. It is a very common

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case, encountered frequently in box manufacture. Sometimes you get the difficulty solely because of "offset." For instance, you have four corners to apply glue on a Brightwood Machine. Due to the printing on the outer face one pair of flaps will receive some "offset," which is enough to make those two ends difficult to adhere while the other pair is easy to adhere.

Question: You mentioned earlier that there are some surfaces where the glue film tends to form globules. Has there been any work with wetting agents in an endeavor to facilitate a uniform glue film? If so, has it been successful? I am not thinking now of hydroscopic materials. I am thinking of wetting agents.

Dr. Campins: It is necessary that the glue film spread on the surface. and so it must wet the surface. So far in many cases this has been aided by developing chemical affinity between the adhesive and the surface and by the use of solvents.

However, regarding the numerous wetting agents that are on the market, each case has to be examined on its own merit, and the picture is thoroughly complicated by the possibility of chemical or physicochemical action, e.g., adsorption of the wetting agent by the adhesive. I will be glad to give you a private opinion on your specific problem.

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MARKETING SERIES NUMBER 43

MARKETING PROBLEMS IN A DEFENSE ECONOMY

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TODAY'S SELLING PROBLEMS IN THE CONSUMER FIELD

By H. R. CHAPMAN
Vice President
New England Confectionery Company

THE theme of the 1941 Marketing Conference is: "There is still a selling job to do." In a situation where the greatest emphasis is being placed on the defense program, this theme might be translated, in the language of the last war period, as "Keep the business home fires burning." Those of us who are in lines of endeavor not directly affected by defense work are confronted with the problem of preserving our domestic economy by producing the required quantity of the everyday, useful goods of life without impeding the progress of the defense program. We may not be able to have "business as usual," but we believe we can have "business with adjustments" and still make customary profits.

THE NEED FOR PROFITS

As a fundamental to which I believe we should all subscribe; I should like to emphasize the need for profits. We have all agreed that there is no desire on the part of industry to make unreasonable profits out of the defense program. In fact, industry is resigned to very narrow profit margins, and will probably be glad to avoid outright losses.

However, profitless industry cannot long survive. The record shows that the profitable industries of this country pay the highest wages and sell their products at the fairest prices. When there are no profits, the earnings of labor, even at high hourly rates, fall off because of shortened hours. Therefore, it is from our normal activities, and not from defense, that we must make the overall profits to pay the increased tax bill resulting from defense expenditures.

We need make no apologies for measuring the intelligence of our management in terms of dollar profits. Without profits our enterprise system would go out of existence—our standards of living would be lowered because of lowered purchasing power, and we would lose many of the social advances which have been made in recent years.

THE AUTHOR H. R. Chapman began his business career as a salesman in the food product field, and over the years has had much experience as salesman, sales supervisor, assistant sales manager, and general sales manager. Today he is Vice President in Charge of Marketing, of the New England Confectionery Company, of Cambridge, Mass. His work has to do with all the factors that go to make up the marketing job.

Mr. Chapman is also Vice President of the Consumer Marketing Division of the American Management Association.

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You say, "All right, how are we to make these profits?" First, by making quality merchandise which will satisfy the largest number of consumers. Second, by technological research to find better methods of production, which will lower our complete costs in spite of higher prices of raw materials. And, third, by sound and aggressive marketing plans, which will give us the widest distribution at selling prices which are fair but which still provide a profit margin. All of these things are basic in the eternal verities, you say. That is correct—but how often in the past we have gotten away from them, in our economic experimentation. We now have before us a chance to get back to proven sound policies in marketing work. Here I should like to put emphasis on the word, *work*. More work and better work—or a combination of both—is the formula that we must follow. Fortunately, in *marketing* our production, we are not limited to 40 hours per week.

FOR AN ADJUSTED MARKETING PROGRAM

Now, you may quite properly ask—what concrete suggestions have you, as a foundation on which we may build an adjusted marketing program? There will be many answers to that in the papers following, but I can tell you what rules we have set down in our business, and some of these may apply to yours:

1. Recognize that sales and more sales are the company's major problem.
2. Adopt a sales viewpoint throughout all divisions of the business and subordinate other functions to the sales function.
3. Adopt a production policy that places the emphasis on what can be sold, not on what the company wants to make.
4. Abstain from the use of premiums and free goods. (After all, the giving of free goods is nothing but a trick method of cutting a price.)
5. Decline special orders which interrupt the flow of regular production and on which the volume is too small for profit. (We all know that during the recent years of the depression we were so eager for tonnage and for business that we took many special orders that we did not like to handle and that were not part of our regular production program. Now is a good time to get away from them.)
6. Make a study of the product line from both the sales and production standpoints, with the object of reducing the number of items and the number of different packings of the same item.
7. Study the volume possibilities of products and be ready to make prices based on this knowledge.
8. Adopt a plan of equal profit return to the company from all classes of trade, taking into account varying differences in costs and volume.
9. Sell the entire organization on the soundness of the company's costing methods. This can include the practice of figuring all raw material costs, etc., on replacement values. (I do not know why it is the prevailing practice in so many industries to pass along to customers the benefits of favorable purchases of certain stocks of raw materials, when, as soon as that stock is gone, the com-

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pany has to go out and replace it at the higher prices. If you have a market profit in your commitments and in your purchases of raw materials, figure your costs on what prices you will have to pay to replace them.)

10. We have created a marketing committee composed of all sales executives and one representative from production and finance. This committee meets once every week and reviews marketing results and the discussions unify our thinking for further cooperative action.

11. Regard all types of distributors with equal favor in the distribution of the company's products.

12. Train all salesmen to sell all classes of trade.

13. Adopt policy of bringing out at least one new item monthly. (That might not apply to all businesses, but it does to ours, because I happen to be in the candy business, and one of our problems is to take the same raw materials and dress them up into different finished products.)

14. Establish a routine for pretesting all new products in the field.

15. Adopt a firm advertising policy and carry it out consistently. (There are many dollars of advertising money wasted because the advertising is spasmodic. If advertising is part of your policy, continue it through good times and bad.)

16. Appropriate not more than 3 per cent and not less than 2 per cent of gross sales for advertising purposes.

17. Make a study of the profitableness of various sizes of accounts—to eliminate those which are unprofitable.

18. Do not adopt a policy of "exclusive" accounts. Sell to everyone in good standing who can pay his bills.

19. Set quotas for salesmen that appear reasonable and obtainable.

20. Provide an incentive for extra effort on the part of the salesmen through the use of a compensation plan based on their individual results.

21. Adopt a policy of occasional field contact by executives outside of the sales department. (Some of you will immediately see the strategy back of that suggestion.)

22. Have sales manager and his assistants spend at least 50 per cent of their time in the field.

23. Create enthusiasm in the field by selling the company and its products to the field force at every opportunity.

24. Create the sales story on the company's products in the home office. Do not leave it to the individual tendencies of the salesmen to make their own stories, which may not always be in line with the facts.

25. Determine the necessary sales records by conference between the sales and accounting departments. Get the accounting department to adjust its procedures to benefit the sales end of the business.

Some of you may say these points are all very elementary and are part of your regular practice, but my observation has shown me that many companies have wandered far afield in their observance of these elementals. I believe

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there is a good job to be done by getting back to them, and teaching the younger element in our respective organizations their value as practical producers of profit.

* * * * * *

Question: Mr. Chapman, I believe you advised the discontinuance of free merchandise in any form of selling. There is certainly a big trend now toward one-cent sales and other types of give-away premiums. What are your ideas about them?

Mr. Chapman: Well, as I think I pointed out, the giving of free goods is a trick method of cutting a price. With strong raw material markets in prospect, the tendency is to firm up in your prices. Personally, I believe that it is economically wrong to give away anything on which you have expended money for labor and raw materials. In a sellers' market we should get away from price-cutting. One of the evils of the food and drug industries has been the use of free goods as a method of price-cutting.

When we have a situation where there is going to be enough business to go around because there is increased purchasing power, why should we not take advantage of that situation to get away from bad trade practices? The use of free goods is a bad trade practice, in my opinion. It should not be necessary under present-day conditions of selling. The way to get away from it is just arbitrarily to cut it out.

Member: How about using free goods to build business today for that additional volume of profit you will need after this period is over?

Mr. Chapman: If your products have sufficient merit, and you can get distribution today without it, why worry about free goods? You may have to come to it later, but not today. Conditions are now changing so rapidly that what goes this year may not go next year. In these comments, I am talking about this year. We have a profit opportunity before us, and we ought not to do anything which will interfere with good profit-making.

I do not think we have to worry about depression this year, and if we follow sound policies we can still build a stronger foundation for business when we do run into a depression. The more strongly you are entrenched with your products, the better off you are when a depression hits. But when it hits, your raw material prices will go down, too, so that you can probably adjust your sales prices accordingly.

Chairman Austin S. Igleheart (General Foods Corporation): I would like that question defined better. Free goods and one-cent sales are two different things. One is on the dealer and the other is on the consumer. Which do you mean?

Member: On the consumer.

Mr. Chapman: As far as our business is concerned, we have examples today of a number in our industry who followed the practice of one-cent sales on these five-cent bars, and they have so established it in the minds of con-

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sumers, that the product should sell for one cent, that they cannot get a nickel for it now. I do not want any part of that.

Chairman Igleheart: From our own experience in General Foods, I can give you some indication of our thinking. Premiums as applied to consumers are very effective defensive weapons, but we question their value as market-builders. If you are being attacked by a competitor with free goods, or premiums, or one-cent sales, your premiums will fill your customers' shelves with your merchandise.

Pretty generally, premiums to consumers make a peculiar selection of a market (this is our experience), which does not represent a permanent market. If you have any substantial volume of business, you will immediately fill that market at a lower price than you would otherwise. This puts a very heavy cost on the promotion, because you add new customers who are very poorly selected—since the real reason they buy is because of what you are giving away.

There are many studies on that subject, and I have seen the curve on 40 or 50 consumer premiums and what happened to the sales volume during the premium-giving period and the period immediately following, for two or three years afterwards. Generally we do not want to do any consumer premium work except for defensive purposes.

Question: On the question of premiums, why do you think today there are somewhat in excess of 140 premium offers being made over the air and in magazines on a national scale? They must be effective.

Chairman Igleheart: You are talking about something else now, not a premium in a store to gain a market. I am not talking about couponing or distributing coupons from door to door. Many people use premiums over the radio not for the purpose of selling their merchandise but as a device to determine the effectiveness of the radio station—to determine how many people in the community listen to the program, as indicated by their coupon response, in contrast with another station. The same is true of magazine coupons. It is one attempt to evaluate the effectiveness of the medium being used, but not necessarily to develop a market for the product.

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TODAY'S SELLING PROBLEMS IN THE INDUSTRIAL FIELD

By E. O. SHREVE
Vice President
General Electric Company

ALL of us realize that we are facing unusual conditions today, that history is in the making, not only for our own country, but for the world. The seriousness with which we view these conditions, the correctness with which we make decisions, and the earnestness, zeal, and enthusiasm which we display to gain the necessary speed for real performance will exert a profound influence upon the character of history made and the future of the world and of our country.

The rapid development of our very necessary national defense program has naturally imposed great responsibility on industry and has created many new and difficult problems. The rapid expansion of industry, the need for thousands of skilled and semi-skilled workers, scarcity of some types of raw materials, economic necessity of keeping reasonably regular production going, and, above all, the obvious necessity for speed in the production of defense material are calling for all the resources of industry, and all the initiative, resourcefulness, and executive ability possessed by the executives of industry.

In this rather tense atmosphere, the industrial sales problems have multiplied and in many ways materially changed in character.

I firmly believe that the welfare of our nation demands that industry, as far as possible, must superimpose the defense program on its regular commercial production. Because, after all, the defense program is purely a program of expense and does not add a thing to the wealth of the nation.

We have built a level of living in this country that cannot be approached by any other country in the whole world. It should be obvious, it seems to me, that if we are going to retain that level of living we must, as far as we possibly can, superimpose defense work on regular commercial operation. I firmly believe this can be done, if we will only develop the will to do, forget the limitations of the workweek, and get back to first principles, so that we will recognize what good old honest, hard work on the part of everyone can really

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This is Mr. Shreve's second year as Vice President of AMA's Industrial Marketing Division.

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do. The extent to which we succeed in carrying the defense load in addition to our commercial load will directly determine the standard of living we will have. There can, of course, be no argument that our first duty is to build up defense, and industry has tackled the job with a spirit and determination which will produce results.

However, I have been traveling quite extensively in the last few months, and I do not believe that the American people have awakened to a realization of the seriousness of the condition which confronts us. Therefore, I am not sanguine enough to believe we are going to successfully impose a defense program upon our commercial program. The extent to which we fail will determine our standard of living.

PROBLEMS OF SALES GROUPS

With such a picture before us, I think it is quite evident that there never was a time which required closer cooperation and understanding between sales, engineering, and manufacturing departments. It is one of the salesman's problems to be fully familiar with the changing requirements in manufacturing, not only in his own company, but in the companies to whom he sells, which are also in most cases shouldering the responsibility of defense business.

Due to the draft, calling up of reserve officers, and natural conditions, industry has to try to cover a much larger field with a considerably curtailed personnel in the sales organization. In order to try to place ourselves, in the General Electric Company, in a position to handle the unusual problems expeditiously and not interfere too much with our regular trend of operation, our president appointed what we call a Defense Coordinating Committee, and that committee has the job of analyzing all these special problems incident to the defense program, so as to relieve those who are in direct charge of the regular operation of the company to do their regular work. That system has worked out admirably.

What are some of the other problems facing the industrial sales groups under present conditions? Let's outline a few.

1. Greater percentage of business originating from some governmental subdivision.
2. Scarcity of some types of raw material.
3. Delayed shipments with complication of application of priorities.
4. New companies of small capital with large volume of business.
5. Responsibility for regular commercial business and service to old, established customers.
6. Risk involved in large contracts with long deliveries on firm price basis.
7. Responsibility for helpful planning for postwar period.
8. Necessity for planning to take back men from military training.
9. Danger that careful training of sales force will be forgotten.

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And these are but a few. I have not attempted to list them in order of their importance.

Now, let's briefly review each one of these problems.

1. **Greater percentage of business originating from some governmental subdivision.** This means more-detailed specifications, once set, very difficult to change. This requires much more time and care before specifications are issued, and cooperation with the government engineers to help in creating specifications which can be readily met by the various manufacturers. There is also much more "red tape" involved in such transactions which takes extra time and care. A mistake under ordinary conditions is bad enough, but under forced production becomes very serious. Business of this kind, therefore, becomes a real problem for a short force to handle with precision and dispatch.

2. **Scarcity of some types of raw material.** As you all know, industry is having to make many substitutions of material. In many cases, it becomes necessary for the salesman to obtain ultimate customers' approval for such substitution and also help to locate substitute material. They should be working close enough with their customers so as to be helpful in solving shortage of raw material in customer's factory.

For instance, one of the elements that is very short is aluminum, and that means that in the so-called non-essential industries again many changes have been made in the way of substitutions. For instance, in electric refrigerators copper-tinned is being used for trays instead of aluminum. In the construction of motors for home appliances, instead of using cast aluminum rotors, copper has been brought back into the picture, with additional expense and additional time of production. Probably as time goes on there will be the necessity for more and more substitution of materials. That is one of the problems that has been studied very carefully, and it is one of the problems that in my opinion the salesman who is traveling through a territory can help with, to very great advantage.

There are many other helpful contributions in this field that will be obvious.

3. **Delayed shipments with complication of application of priorities.** Of course, under present conditions, it must be expected that there will be a considerable number of shipment promises broken. The sales force can do much to keep customers informed of trends and urge them to place orders more expeditiously so as to help the manufacturer to help them. Also, the sales force should try always to indicate the necessity of ordering standard material. This will be most helpful in production, since it requires the least number of men, less time, and also less cost. In my opinion, a good salesman can render invaluable service in this field.

So far, the operation of priorities has not complicated the picture to any very great degree. Industry generally, it seems to me, has tried very hard to

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give prior preference to the defense program, and at the same time organize its operations on a basis that will give the most production and best service. Of course, priorities have figured extensively in some fields of operation, and probably will come into other fields. But from our experience so far I do not believe we are going to have the chaotic condition that developed during the last war because of faulty handling of the priority principle.

4. **New companies with small capital with large volume of business.** The tremendous amount of work each salesman has to do because of the shortage in personnel makes it important that he use good judgment in allocating his time where it will do the most constructive good. Due to the need for greater productive capacity and the urgency for speed, many new companies have come into being with relatively small capital and have assumed responsibilities for orders many times their capital ability to handle. Care, therefore, has to be exercised to analyze each such situation so as to be reasonably sure before doing a great amount of sales or engineering work that the contract, if entered into, will be paid.

By way of illustration I have in mind two companies. One is capitalized for five million dollars and has $105,000,000 of business on its books. Obviously the capital structure is insufficient to take care of that kind of situation. Therefore, unusual care has to be exercised on the part of those who are selling that kind of company, to be reasonably sure they are going to get their money for the contract that they enter into. Another company has a capitalization of around $200,000 and has $56,000,000 worth of business on the books. That I think you will all agree gives us a brand-new problem that we have to pay real attention to.

As Mr. Chapman indicated, industry generally is not looking for profits out of this emergency program. There are so many variables that have developed in this picture that it is a very difficult if not impossible proposition to safeguard against loss. So I believe that, broadly speaking, industry generally is going to be very happy if they get a new dollar for an old one.

5. **Responsibility for regular commercial business and service to old, established customers.** As I have stated, I think we should strive to superimpose the defense program on our regular commercial activity. The extent to which we are able to carry out this program will determine our ability to take care of regular, so-called non-essential commercial business. Every effort must be put forth to reasonably take care of old, established customers' requirements. Industry, of course, must take care of the defense program first, but we must never forget that when the peak is over, it will be the old customers' business and the regular commercial business upon which we will have to depend.

6. **Risk involved in large contracts with long deliveries on firm price basis.** This, I believe, is the real problem, not alone because of the possibilities of increases in labor and material costs, but because of having to train a large

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number of inexperienced workmen, with consequent loss from spoilage and rework. It is one of the sales organization's responsibilities to devise contractual provisions which will reduce such possible losses to a minimum.

7. **Responsibility for helpful planning for postwar period.** I think every industrial sales organization can and should constructively contribute toward easing the economic situation after the war. One way this can be done is by suggestions to help bring production up to the highest efficiency through various modernization plans. We are told that in 1932 50 per cent of our industrial plant equipment was over 10 years old, and that in 1939 this figure had risen to 70 per cent. Without doubt, we will face the keenest world competition we have ever known with the coming of peace, and to meet it successfully, we must have our production on the most efficient basis possible. There are other contributions I think our industrial sales organizations can make toward a postwar program and we should be ever alert to make them, but I believe modernization is by far the most important. In my opinion, the competition which will be experienced will be so severe and on such a low price basis that we will be unable to build tariff walls high enough to protect our high standard of living in this country. Unless we take pains to see that our production is up to the very maximum peak of efficiency, then I think we are going to be in a very sad and weak position to handle that competitive situation.

Of course, a companion problem is evidenced in that line, it seems to me. We are building excess capacity at an alarming rate, in order to take care of the defense program. Pretty nearly all of that capacity, I think, without doubt, is going to be idle when we get through with the program. That is going to impose another very difficult problem, one that will be hard to solve and will affect, too, the conditions which prevail in the postwar period.

8. **Necessity for planning to take back men from military training.** It is quite obvious that industry must do some planning in relation to this problem so that everyone is dealt with on a fair and equitable basis. The sales departments have this problem, in common with other parts of industry. It will probably be necessary to let some men go when we take back the men who are in training today, and if we are going to do the fair thing, we must arrange a program that will be fair to both parties.

9. **Danger that careful training of sales force will be forgotten.** Of course, we are in a decidedly sellers' market. However, under these circumstances the salesman, if he operates properly, can be even more valuable to his company than when operating in a buyers' market. Nevertheless, the problems are quite different and there is danger, especially for the less experienced salesman, to come to the conclusion, because of the rapid influx of orders, that he is an expert salesman when, in fact, he may be just a reasonably good order-taker. It would seem important, therefore, to take the necessary steps to save as many men as possible from arriving at false conclusions, so that they will be really productive when the conditions produce a buyers' market. The sales-

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man is apt to lose sight of the small order in today's picture. We must try to keep before our sales organization the fact that we still value the small order and that we want them to go into the field with that in mind and build on the basis of constructive work, rather than to be carried away by the spectacular array that is before us.

The main problems confronting sales departments today can be briefly stated as:

(a) Proper handling of defense business to gain the greatest speed and output to do the job.

(b) Proper handling of commercial business—the valuable business in after years.

(c) Proper help in preparing for the future or postwar period.

Industry's task is great in the emergency, but it has accepted the challenge with enthusiasm and determination and will do a real job! When the story is written, I am confident we will find that the commercial departments will have contributed their full and constructive share.

SELLING: THE FIRST PRIORITY OF AMERICAN DEMOCRACY

By DR. PAUL S. ACHILLES
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THE easy days are gone. No one of us can now shirk any duty or responsibility that comes his way. There are words from across the sea that haunt us. "I can offer you only toil and sweat and tears." "Never have so many owed so much to so few." "We shall not falter or fail." No matter what we are doing, we cannot entirely forget these words. They inspire us, and at the same time they beset us with the lurking dread that our freedom, our democracy, and all that we hold dear are now hanging in the balance. Hence, it is your task and my task, the task of every one of us to stem that tide. That is why "Selling: The First Priority of American Democracy" was chosen as the topic of this paper. My aim is to approach the topic from three angles and, where possible, to offer a few pertinent suggestions from a psychological standpoint.

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1. Public anxiety. First, let's approach our job from the angle of the current public anxiety. Recently a top executive in a large company asked me, "In your work as a psychologist, are you finding an increase in the number of people with nervous breakdowns on account of the war?" He said, "I find myself getting into such a state of anxiety these days that I often deliberately cut out listening to the radio at night and read only a minimum of the war news in the papers."

That executive's experience is familiar, I think, to most of us. It is common knowledge that we all have areas of anxiety, so to speak, in which we are liable to crack. These areas differ for different persons. For some it is health, for others it is social relations, for others it is financial worry, for all of us it is the war, and so on. Psychologists even prepare "anxiety scales" which seek to detect the areas and to measure the extent of a person's anxieties. But we need no fancy names. The questions are simply: How am I doing? Why do I worry so much about this or that? What shall I do about it?

Now there is nothing profound in pointing out that this proneness to anxiety in all of us is played upon by both psychological warfare and dictatorship. The technique is simple. Create uncertainties. Fan every fear. Encourage doubts and mistrust. In short, accentuate every possible human anxiety. Then offer the anodyne in clever disguise. That anodyne is the insidious drug of escape from worry and escape from responsibility for the consequences of our own acts. The first doses are pleasant. They taste sweet. We get relief. *We* need not worry. *We* are not responsible. Some big bad monster of injustice got us into trouble. Some wave of the future is sweeping us along. Resistance and self-reliance are useless. If we will just relax and give him power enough to do so, some heroic dictator will save us. There is no need to proceed further in the painting of that picture. We all know what it looks like. The best reason for calling that type of state the totalitarian state is that it represents a *total loss* for the individual and for free business enterprise.

But there is another remedy for anxiety. It is not an anodyne. The first doses are not pleasant. They taste bitter. We do not get immediate relief. It takes time. We *do* need to worry but *not* about escape; for now we realize that if we want self-confidence and personal peace of mind, if we want freedom, if we want democracy, free enterprise and the American way—then *we*. and we alone, are responsible. These things are not the gifts of dictators.

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Dr. Achilles is a director of the Eastman Kodak Company, and lectures on Business and Vocational Psychology at Columbia University.

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They cannot be given. They can only be won by faith, by courage, by understanding, and by hard personal labor.

This remedy is not new. But in the heyday of our American way, it seems to be something that we have forgotten. Relating it back to our original question concerning nervous breakdowns, the psychologist, in his personal consulting work, is constantly up against the problem of getting people to stand on their own feet. Habits of self-reliance, independence and self-direction have not been developed. Here, for example, are the personality ratings on a very likable young man of 25 recently examined in our office:

More sociable than	88	per	cent	of	college	men
More extroverted than	44	"	"	"	"	"
More emotionally stable than	30	"	"	"	"	"
More self-confident than	15	"	"	"	"	"
More socially aggressive than	10	"	"	"	"	"
More self-sufficient than	9	"	"	"	"	"

Note the descending scale and the low on self-sufficiency. One case, of course, means little, and the tests are far from perfect, but ask any psychologist, or, in fact, any sales manager, if that picture is not typical of many of the young men he has to handle and try to develop to the point of self-starting and standing on their own feet.

A JOB FOR SALES MANAGERS AND PSYCHOLOGISTS

The point I am making, however, is that we all have to accept the blame for this—including a good measure for psychologists, whom I shall mention later. But first, let me observe that the typical first reaction of practically anyone taking psychological tests is to claim personal credit for his good scores and to disclaim personal responsibility for his bad ones. It is the old, old story—the very human weakness that crops up in all of us, of trying to alibi our own shortcomings. We cannot change this overnight. We can only keep plugging at it. But it is a primary job for sales managers and for psychologists. I say *sales managers*, for upon their self-reliance and spirit, and upon the confidence they can inspire in their men and in their customers depends the future of *their* business and of *all* business. And I say *psychologists* for two reasons. One is (here, if you will pardon me for just a little shifting of blame, I'd like to put some of the responsibility for this on the psychoanalysts) that psychology in its desire to explain human nature has been prone to provide human beings with too many new and fancy alibis for just plain bad habits and lack of self-discipline. The other reason for calling this a job for psychologists is, that I think in spite of their faults, the psychologists are now beginning to give sales managers some real help, not only in selecting men, but, what is more important, help in understanding men and in providing them with the kinds of specific help and training they need to become better salesmen.

So much, then, for our first approach from the angle of current anxiety.

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We want no anodyne. We want action—and the kind of action that is represented by *selling*. Not senseless "high pressure," but selling in the highest sense—the sense that American salesmen, like the self-reliant pioneers who made this country, must now more than ever be the leaders, the men who are not afraid to lead the way to better things. That is a priority that is up to us; it is not a matter of government regulation because of material shortage.

2. Opportunity. Our second approach will be from the angle of opportunity. Here the defeatists have again been dealing out some deadly drugs. They have told us so frequently that the days of opportunity were over that thousands of young people were beginning to believe it. I am sorry I could not dig up the survey and the exact figures on this point—but I recall distinctly a column a year or so ago by Dorothy Thompson commenting on the high percentage of young men, in a survey made by the Y.M.C.A., I believe, who were imbued with this defeatist doctrine. It is just as insidious as the other drugs of dictatorship. It is not the American way. There is no denying that the going has been tough and that jobs for young men, until very recently, have been so scarce as to discourage all but the hardiest. But who is responsible? Our tendency, I fear, has been to avoid taking much of the blame upon ourselves. I presume many of you were among those who, but a few months ago, were chanting—"We want Willkie." I was, but I confess, not that I was wrong, but, that I was partly missing the point. Willkie does not believe the days of opportunity are over. He was promising to make more jobs. Perhaps promising too much. But somehow, did we not want *him* to do it, rather than ourselves? Our debt to Mr. Willkie is for the tremendous and inspiring effort he made to restore faith in ourselves. *We* must do it—not someone else. The days of opportunity are indeed over unless we realize that *we* are the ones who must *create* the opportunities.

TIME FOR REALISM

It is time then for us to be realistic and practical. In the current anxiety and confusion, we are apt to lose our heads. It takes no psychologist to tell you that that is precisely the way to make things worse. As the pressure on us increases, the more we need to work calmly and to stick to the fundamentals. (I recall here the formula dinned into us at Camp Upton during the last war by a British officer sent over to help train us as machine gunners. We used to practice for speed in setting up the guns. It takes nice teamwork. Then the test would be to have several gun crews race, starting from scratch and seeing which crew could get its gun set up and into action first. There were plenty of jams, excitement, and confusion. In the midst of it, he would blow his whistle and make us all stop immediately. Then he would stroll slowly forward and ask us casually, "What must a machine gunner be?" With chagrin, we would have to repeat this formula: "A machine gunner must always be cool, calm, and collected." Overemphasis? Yes, perhaps. But the kind of emphasis needed to make fundamentals stick.)

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One fundamental that we all know is that business must go on. There is currently a tendency to cast aspersions on the phrase "business as usual." Our first tendency is to resent it. But our first job is, of course, calmly and persistently to correct any of the misunderstandings, and, any of our own shortcomings, that account for it. The very foundation of our strength, as Mr. Chapman and Mr. Shreve have indicated, is our capacity to keep business going as usual. Unless we do that we cannot do the unusual which is now demanded of us—at least, not for very long. Here, then, is something else for us to sell—another priority, the plain simple truth that it takes business as usual to beat Hitler. Not without sacrifices. Not without square-dealing and honesty. (There *is* a possible catch in that phrase "as usual.") And, heaven knows, not without taxes. But with more brains and character, and more honest effort than have ever before gone into *business as usual.*

IMPORTANCE OF RESEARCH

Another fundamental we all know is that the one best way to *create* opportunities and to *find* opportunities is by research. Product research, personnel research, methods research, marketing research, pure research. The names are all familiar. We are proud of the record. But pride often goes before a fall. Can we be proud of the millions of unemployed we had just prior to this emergency, or of the fact that only the production to meet this emergency is temporarily pulling us out? I am no economist, no prophet, but anyone can add figures and read the papers. We are increasing our productive facilities at an unprecedented rate. According to *Business Week,* in the first quarter of 1941 alone, we created more new manufacturing facilities than were produced in the entire years of 1932 or 1933. The total estimates as to the expansion of our productive capacity are staggering, and it takes no great sagacity to see that a terrific scramble for markets is coming when this war is over. It will be over. The world is not coming to an end, even though some pessimists may not hesitate to predict even that. What we can predict is that many of our vast productive facilities will be useless unless we can find ways to keep them going by research.

Very humbly I offer you a few scant gleanings. They are nothing to brag about, beyond being one possible step in the right direction. Increased production —even war production—means, of course, increased employment and more people with more money to spend. What are they going to spend it for? Hundreds of things, of course, but will they be better things? Will they be the *best* things that people can buy for the money, and will they be *your* things? Not unless you are on the job now, and keep on the job in spite of hell, Hitler, and high taxes.

SOME PLANNED EXPENDITURES

Recently, The Psychological Corporation tried a few experimental questions in one of its nationwide surveys of 10,000 interviews with the customary

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proportional sampling of economic levels. This survey, however, was confined to city populations. This sample represents approximately 20,000,000 urban families. You are familiar, of course, with the polls to predict presidential elections and their high degree of accuracy. Our job was more difficult. In a presidential election there are only two candidates between whom to choose. But suppose you are trying to predict which car, or which refrigerator, or which radio the most people will buy. Or, how the people of various income levels intend to spend their money. This was one purpose of our experiment. Here are some of the results.

Fifty-four per cent of all these urban families rent their home or apartment; but in the highest income brackets, 73 per cent own their homes, whereas in the lowest income brackets, only 20 per cent own their homes. There is nothing startling about that, but what are the home owners planning to do? Seventeen per cent were planning to paint the outside of their homes, and of these the majority were in the lower and middle income brackets. Presumably, the people who are better off keep their homes in better condition. But the point is, that in addition to the steady market among the well-off, here is a *new opportunity*—a new crop of persons who want to paint their houses and can now probably afford to do so.

Let's carry it further. What else are the home owners planning? Over 13 per cent were planning further or other improvements. Of these, some of the most important were: inside painting, 23 per cent; papering, 19 per cent; remodeling, 17 per cent; roof repairs, 9 per cent; porch repairs, 6 per cent; landscaping, 5 per cent; insulation, 4 per cent; and so on. And what are they planning to buy? In previous studies we had tried questions on the probable purchase and make of automobiles and refrigerators with good results. That is to say, we could fairly well spot trends toward various makes of cars and refrigerators, because here the outstanding makes are relatively few and the names are pretty well known. Now, we were trying to extend this procedure to other products. It was to some extent like trying to take pictures in the dark, but we got something from our exposures. We asked people about a number of things which they might be planning to buy for their homes. Among these, the most likely purchase was that of a room-size rug. About 16 per cent of all families were planning to make such a purchase. Over 9 per cent were planning to buy a new radio; 7 per cent were planning to buy new washing machines; and 7 per cent, new vacuum cleaners. And here again, the majority of people planning to make these purchases were in the middle or lower middle income group.

PROSPECTS FOR SPECIFIC BRANDS

But next, and more interesting to you, how many of these people with intentions to buy had in mind a specific make, or brand, of radio, or washing machine, or vacuum cleaner? One side of our picture shows the opportunities open to the makers, and to the advertisers and salesmen of these articles.

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Here it is: For washing machines, 43 per cent of the probable purchasers did *not* have any specific make in mind. And for radios and vacuum cleaners, the percents were almost as high—38 per cent in each case. Does not this indicate a specific opportunity for somebody?

The other side of the same picture shows, of course, how well certain companies are already doing their jobs in these markets. For example, five different makes of radios now have the edge. That is, they are most frequently named as the kind that these probable purchasers intend to buy. We estimate that these five makes will account for about 75 per cent of the total radio sales this year. Similarly, with regard to washing machines, four makes, as things now stand, will probably take a sizable share of the total market; and for vacuum cleaners, only two makes, as things now stand, will probably get the bulk of the business. But the major point is that, in our American democracy, where free enterprise and selling are a first priority, things will not stand still. Not so long as we continue to make better products and to promote them with better advertising based on better marketing research.

3. Understanding. Now, let us look at our selling job from the angle of understanding. I have not the wisdom, nor the temerity, to attempt any explanation of the world economic situation, or of postwar readjustment problems. Possibly there is too much waste in the system of free enterprise and competition which I have just been advocating, but I am still willing to risk its faults rather than risk the loss of our initiative and self-reliance. I can only speak humbly and rather simply as a psychologist. Our work, of course, involves the study and measurement of attitudes, as well as of abilities, interests, and other traits. You are probably well acquainted with recent developments in the measurement of employee attitudes as a new and useful tool of management. It is of understanding as an *attitude* that I wish to speak, not in the sense of an ability. In other words, there is a great and easily discernible difference between stupidity, or inability to understand, and stubbornness, or unwillingness to understand. The latter is an attitude, and its converse, of course, in an attitude of *willingness* to understand. Thus, we say of a person that he is open-minded, or sometimes, with a slightly different shade of meaning, we say that he is a very "understanding" person. We do not mean that he is weak, or that he is easily influenced by every suggestion that comes along. Rather we think of him as a strong and experienced and well-balanced person, because his attitude is always that of being willing to listen and trying to understand.

THE PROBLEM OF LEADERSHIP

We need that attitude in these trying times. The problem that troubles me most, and perhaps most of you, is the problem of leadership. We need better leaders everywhere—in business, in government, in education, in religion. On the other hand, as I have indicated, we cannot be blind followers.

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We must be self-reliant, we must even resist our leaders at times when we think they are wrong. We must ourselves *be* leaders in the fields where we are properly responsible and supposed to be competent. Here, it seems to me, is the very crux of the struggle between dictatorship and democracy—the problem of competent leadership, selection of leaders, and intelligent "followership." I can, of course, offer no panacea. The struggle seems likely to go on indefinitely, even long after the end of this war, whatever that end may be. The problem in industry is particularly acute. We have a grave responsibility —the more so because executives and leaders in business are not elected by employees, but appointed from above. We all know that a business cannot be run successfully as a debating society, and we all know equally well that it cannot be run successfully as an absolute dictatorship. Our job, obviously, is to find the workable middle ground. I can only suggest as a psychologist, that an attitude of *understanding* on the part of all of us is one means to that end, and that this attitude is something that can be cultivated and achieved by all of us.

"CONSULTATIVE SUPERVISION"

In this direction there are hopeful signs. For example, the phrase, "consultative supervision," is a relatively new and significant one in management. We were surprised last year to be given an assignment illustrating the application of this idea on a large scale. A certain company wanted to establish a plan for health, unemployment, and retirement benefits for its employees in 16 factories throughout the country. Five plans were developed by the executives of this company. However, differences of opinion developed between the executives as to the relative merits of these plans. The Psychological Corporation was asked therefore to present these plans to a scientific sample of the employees, covering factory, office, and sales forces. However, this was no simple poll of public opinion. The plans were rather complicated. Therefore, through a careful test-tube study, we developed certain simplified methods of presenting these five plans. We adopted what was in essence an advertising technique. That is to say, each plan was reduced to the dimensions of an advertisement in the simplest possible terms. Consequently, when the employees were interviewed, it was almost as though we were conducting a copy test, or a test of advertisements.

The results were so definite and clean-cut, and seemed so plausible to all the executives concerned, that the adoption of the best plan was greatly facilitated. The importance of this operation may be indicated by the fact that the initial appropriation for the execution of this plan by the company was almost four million dollars. This was a large company, but many larger companies have adopted health, retirement, and unemployment plans for their employees, with little or no regard for the psychology of their employees, or any research attempt to discover it.

How are we going to get this understanding? The illustration just given

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represents a scientific attempt at the understanding of people's thoughts and desires in an employment situation. However, the really important point is that the techniques used here are the direct outgrowth of research fostered by sales managers and advertisers. It is in the field of sales management rather than in the field of production management, that scientific research in regard to *people* has been encouraged and financed. That is one of the reasons why selling is a first priority in American democracy, namely, because it is based on the study and understanding of people.

PUBLIC OPINION POLLS

When we stop to think, what has been the most dramatic achievement of this century, in the measurement of people's minds and aspirations? Has it not been the polls of public opinion, the Gallup poll, the *Fortune* poll, the Crossley poll, the Brand Barometers of The Psychological Corporation originated in 1932? What greater instrument for the understanding of democracy and the preservation of the American way of life can there be than these polls and the knowledge of people which they make possible. The development of this social psychology must be credited almost wholly to the support of sales and advertising managers. The techniques were developed and financed by this part of American enterprise.

Sales management has not only taken the lead in the study and understanding of people but its basic philosophy, whether implicit or explicit, has been to get people to do things for themselves, to stand on their own feet. When the American public ceases to stand on its own feet, when it becomes completely dependent on a dictator, then it will have ceased to be a democracy and selling will be no longer necessary.

In a splendid recent article, J. Walter Dietz, one of our finest leaders in the field of personnel relations, pleads for the research approach. He says:

> The challenge of the 1940's is this new *human* emphasis. Science and technology are interested in *things*. Management—American management—must be concerned first about *men—people!* When that conviction is translated into action and deeds, the American capitalistic system will have gained the confidence of the worker, the customer, the investor, the public—individually and collectively; and reformers will not shake that confidence.

In my opinion it is the sales and advertising managers who have led the way in this human emphasis and the research approach.

SUMMARY

In summary, then, the points I have tried to make are these:

There is currently much strain and anxiety. We can counter this by greater self-reliance, greater calmness and greater faith in ourselves. These in turn are based on faith in the future and in all of the forces that are making for good in this world. Call it faith in God if you like, and we should have the courage to call it that.

There is currently fear that the days of opportunity are over. We can

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counter this by continuing our efforts in research and by continuing business *better* than usual.

There is currently anger, resentment, and mistrust of leadership. We can counter this by learning to be better leaders ourselves and by cultivating an attitude of understanding.

Recently one of our political leaders, Vice President Wallace, said that in addition to our Bill of Rights we needed in our democracy a Bill of Duties. Whatever our political opinions or preferences as to leaders, there is truth in that, and it demands our willingness to *understand* and to cooperate.

I have tried quite simply to give you some of the points that belong in our Bill of Duties, as American business men and American salesmen. I have no doubt that in these times, we will meet the challenge and show the stuff that we are made of.

As a Yale man, I cannot refrain from ending with what I think is a good Yale football story. I hope it is true. In the Princeton game of 1939, Captain Bill Stack of Yale was injured in the head. He finished the game—playing automatically, so to speak—but for some time afterward he was unable to remember what had happened and what he had done in the game. He wanted desperately, of course, to play in the Harvard game the following Saturday. The doctors said "No!" He had to sit on the sidelines. What happened among his team-mates? The story is that, after each huddle for signals, the boys said, "This one's for Stack. Let's go!" And they did go. They won that game. I am sure, gentlemen, that there is enough of that spirit in all of us to win the tough game we have ahead. American sales managers and advertising men are on the right track for maintaining the American way of life based on free enterprise, on individual initiative and on individual responsibility. Let's stick to our guns.

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HOW A HARD-HITTING SALES ORGANIZATION WAS DEVELOPED "FROM SCRATCH"

By CHARLES G. PYLE
General Sales Manager, Lamp Division
Hygrade Sylvania Corp.
Salem, Mass.

FOR want of a better title, we have called my paper, "How a Hard-Hitting Sales Organization Was Developed 'From Scratch'." This statement cannot be considered absolutely true, inasmuch as we had, to some extent, a nucleus around which to build a sales organization and, therefore, it was not entirely "from scratch"—and I am sure that the Board of Directors might at times, particularly when sales are occasionally not quite up to par, question the word, "hard-hitting."

Be that as it may, I would like to point out, first, that this discussion is not a resumé of something that has been "accomplished"—something that we have wrapped up and consider a completed job—but rather a progress report, indicating how far we have gone to date and pointing out some of the problems and obstacles with which we have had to cope.

For the sake of clarity, I have divided this report into four general sections, each covering a particular phase of development. These divisions are:

THE AUTHOR Charles G. Pyle became connected with the lighting industry when he took charge of the old Hygrade Lamp Company's Pittsburgh warehouse in 1920. He has been a figure of constantly growing importance in the industry ever since.

From the Pittsburgh job, Mr. Pyle went to Baltimore as district sales manager. Shortly after the merger of the Hygrade Lamp Company and the Sylvania Tube Company in 1932, he was appointed assistant sales manager for incandescent lamps, with headquarters in Chicago. Executive sales offices for Hygrade Sylvania Corporation were opened in New York in 1933, and Mr. Pyle came on to this city, where he continued as assistant sales manager. In 1939 he was appointed general sales manager for Hygrade incandescent lamps, in one of the most highly competitive fields a company can enter.

Mr. Pyle is no "swivel-chair sales manager." He believes in getting out into the field, keeping in closest possible touch with his sales organization, viewing new situations first-hand, and settling his selling problems when and where they arise. One good indication of the amount of ground he covers in an average year is the fact that in 1936 he received the Sales Executives Club's first award for being the most-traveled sales executive.

Mr. Pyle's company, the Hygrade Sylvania Corporation, is this year celebrating its fortieth year in the incandescent lamp business. But only two short years ago, after considerable research, it brought out fluorescent lamps and a few months later put on the market the first complete, practical fluorescent lighting unit. The problem of selling this entirely new kind of lighting was a huge one; however, since it was first made commercially available, fluorescent lighting has swept the country and developed into a tremendous new industry. Mr. Pyle is one of those who have played an outstanding part in bringing about its rapid acceptance and widespread distribution in so short a time.

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1. Period of invention and research.
2. Period of orientation.
3. Period of analysis—what is our problem?
4. Building the organization.

In any discussion of this nature, it always seems to me to be advisable first to get a perspective, by viewing the point from which most of the problems arise, so that we will all understand these problems as I cover them. Therefore, it might be wise in this case to give you an idea of our sales position when the Lamp Division was manufacturing only incandescent lamps.

Hygrade Sylvania is, and has been for some time, the third largest manufacturer of incandescent lamp bulbs in this country. While incandescent lamps are obviously an electrical product, their very nature as an over-the-counter commodity removes them from the category of merchandise which should be distributed solely by the electrical wholesaler. Over a period of years we have found it advantageous and logical to supplement our electrical jobbing outlets with various packaged-goods distributors. Hence, our list of incandescent lamp jobbers includes paper jobbers, drug jobbers, grocery jobbers, and others.

This, then, gives you a picture of our distribution as it stood before the advent of fluorescent.

1. PERIOD OF INVENTION AND RESEARCH

Now to give you a brief outline of our entrance into fluorescent. Our Engineering Research Department for a number of years had been experimenting with ultra-violet lamps with the thought of obtaining some method of transforming the already-created, but practically invisible, ultra-violet light into a visible light to be used for general illumination. Through research they had discovered that certain powders, which they called phosphors, would transform ultra-violet light into visible light. The difficult problem still existed, however, of applying these powders to a tube so that they would adhere firmly to the inside of the tube, to allow the maximum amount of light to be produced and to escape. This was the embryo of the fluorescent lamp.

After many months of experimenting with different methods of applying this powder to the tube, the engineers finally arrived at the answer. Hygrade patented its method of coating the lamp, and in October, 1938, the company announced its first commercially available fluorescent lamp—or, should we say, dropped this new-born babe into the lap of the sales department.

What more could a sales manager ask for? Here was a revolutionary new light source and what light! Nothing like it had ever been artificially created before! Gloriously clear, and soft—here was man-made daylight at last! And a world of new possibilities opened—for business, industry, homes!

But it wasn't as simple as all that. For, while we had a wonderful new light source, made available (as far as the lamp itself was concerned) at a relatively low cost, it could not be used in the ordinary light socket. Although

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existing circuit wiring could be utilized, fluorescent lamps required considerable auxiliary equipment before they would function.

We recognized at once that if fluorescent were to be of maximum industrial and commercial use, the product must be made readily adaptable. A unit package for fluorescent lighting—something which could be plugged in as simply as a fan or any common piece of electrical equipment—was needed.

In brief, without fixtures or necessary equipment, we were like the razor blade manufacturer without razors. We were all dressed up with no place to go.

Being unable to encourage old line fixture manufacturers to produce the sockets for our lamps, we decided to design a fixture ourselves. Our first unit clicked—as a matter of fact, orders began to *pour in.*

Industrial organizations clamored for this new form of light. Stores, offices—everyone who saw and learned about it, wanted it. To keep orders for lamps on the upgrade, we expanded our line, increased production, and stepped into an entirely new kind of business!

This brings us to my second general heading—the period of orientation.

2. PERIOD OF ORIENTATION

Here was much more than a new item of merchandise. *Here was a new industry* with a product apparently having every possible advantage that any new product should have. As far as our company was concerned, we had entered an entirely new field, not just from the standpoint of manufacture, but particularly from the standpoint of distribution. Here was a product that required a certain amount of technical knowledge on the part of the salesmen *before* it could be sold. Here was a product that apparently required a certain amount of service *after* it had been sold. Here was a product about which we had to educate not only the consumer, but our own salesmen, our jobbers, our jobbers' salesmen and their dealers as well.

It was only natural that in the beginning we turned this product over to our friends—those people with whom we had been doing business in incandescent lamps. In other words, we allowed our incandescent lamp distributors, many of whom were not equipped, to sell fluorescent lighting. This was our first, and most important mistake, and it brings me to the third general heading, our period of analysis.

3. PERIOD OF ANALYSIS

It did not take long for us to realize that we had made a mistake by initially distributing our new product through jobbers who were not versed in the rather elaborate technical details of fluorescent lighting, nor prepared to cope with the service requirements which followed a fluorescent installation. It also became apparent that we were rapidly heading for a fall as far as continued sales were concerned, for we were not going through the recognized distributing channels and were, therefore, bucking a group whose life depended partially

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at least, on the sale of lighting fixtures and their installation—the electrical contractors.

At this point we felt it advisable to make provision for field research and a more conscientious effort toward sales planning. With this in mind we hired a suitable man to shoulder these responsibilities, and set about the job of revising our distributive setup.

On the basis of our findings in the field we issued a statement of sales policy to the trade, emphasizing the fact that we would distribute only through bona fide wholesalers of electrical merchandise. We emphasized, too, that we would at all times distribute our fluorescent products in accordance with the established practices of electrical distributors, thereby recognizing the importance of the electrical contractor in the fluorescent lighting field and the necessity for protecting him.

Our program, then, called for cutting off many of our old jobbers and going after wholesalers of electrical merchandise only. As you can all appreciate, such a program cannot be accomplished overnight, and is certainly a program a sales manager hates to tackle. It is more than a little difficult for a salesman to walk in to one of his accounts that is doing a fairly good job in selling his merchandise and tell him he can no longer have the line. Moreover, we had to handle the entire situation with the utmost care and diplomacy, if we were to retain our incandescent lamp business through the same jobbers.

4. BUILDING THE ORGANIZATION

This was, then, the situation which confronted us about a year and a half ago. Our task was to build a sales organization and a distributing organization to cope with the problems we found facing us in this new industry. Here's what we did regarding our own sales organization:

Fortunately, we were able to select from our own organization six capable men, well-versed in our company's sales policies, to act as sales supervisors in our major territories. These men became in effect "assistant sales managers," to whom I could delegate administrative responsibilities, thus relieving the load I was called upon to carry as sales manager of our expanding organization.

Our next step was to obtain good salesmen to work under these supervisors. There are, of course, a variety of methods which can be employed in obtaining applicants, with which you are all familiar. I will not take the time to review these. In our case, however, we did not find it necessary to employ the standard practices to seek applicants. Hygrade and others had created such tremendous interest in fluorescent lighting, and its possibilities were so apparent, that we had hundreds of high-caliber men applying to us for selling jobs in this exciting new industry. Our job, then, was merely a matter of selecting the best of the applicants.

Whether to hire men with experience in the lighting field or to hire men

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with good selling records in other fields was a question which immediately confronted us. Inasmuch as fluorescent lighting was an absolutely new business, we felt that the factor of lighting experience was not of tremendous importance —for, in any event, we were going to have to train them.

In the beginning we picked salesmen according to our established practices with regard to personality, selling ability, and so on, with little regard to previous experience in the lighting field. We soon found, however, that men with previous lighting experience learned more rapidly and gave more satisfactory results—and this speed factor was vital, as we had to build a sales organization practically overnight. We, therefore, came to a policy of definitely favoring applicants who had this type of experience.

The proper training of these new men was of paramount importance. We felt that it would be asking too much to require the six sales supervisors to take on this educational burden along with all the administrative responsibility that had been given them. We felt, too, that if we used our supervisors as sales trainers we would probably have six different types of sales training. So, in order to establish a standard selling technique as a means of making our sales training faster and more efficient, we added to our organization a man whose principal function is sales training. This man aids in the selection of men, supervises their training, and assists in their direction. He also executes sales policies established by the management and coordinates sales plans designed to increase distribution and volume.

METHOD OF COMPENSATION

It may be interesting at this point to discuss the method of compensation we decided upon. We pay our men on a straight salary basis. We feel that by doing this we accomplish certain definite objectives. In the first place, we find that we are able to obtain higher type men for our particular purposes, and to exercise better control over these men. Besides, we were asking these men to help build a new distributing organization. In other words, their time was not entirely spent in direct product selling. There was also, of course, a certain amount of missionary work and field promotion necessary. As a specific example of the promotional work that was necessary, I would like to point out that it was vital to us to obtain the support of the public utilities. It was necessary for these men to spend a considerable amount of time with utility executives, from which no immediate direct sales would result.

Salaries are regulated by our Salary Standardization Plan. This plan provides for maximum and minimum salaries (affected somewhat by the costs of living in the area where the salesman works) for each of five classifications: Junior Salesmen, Senior Salesmen, Key Salesmen, District Managers, and Supervisors.

Besides salary, salesmen have an opportunity for additional remuneration under our Bonus Plan. We think this bonus plan is unique. If I may digress a little, I would like to voice my personal opinion in regard to the conventional

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bonus plan, which is usually based on arbitrary quotas. I feel that such a bonus plan more often than not defeats its purpose. If the quota is set too high, the salesmen are discouraged. If the quota is set too low, he is overpaid. In too many cases it becomes a source of dissatisfaction in that the salesman feels that his quota has been set too high, and the company is making it practically impossible for him to earn his bonus. In our opinion, our bonus system eliminates all possible cause of friction between the sales management and the salesman. The bonus has nothing to do with the potential in the man's territory. It is based on his cost to the company, and is determined by his sales in relation to his salary and traveling expenses. The moment a man's sales are enough to offset his cost of doing business in his territory, he begins to share in the profits earned by his territory.

In addition to the bonus plan, we employ the other usual methods of stimulating salesmen. Periodically, for instance, we hold a sales contest, usually in dull seasons, offering attractive prizes in merchandise and money.

Sales meetings are, of course, very important in a new industry. In addition to the general sales meetings which we hold periodically, we have meetings with our sales supervisors every three months, to discuss new designs and other innovations continually being injected into the picture. These supervisors, in turn, then hold meetings with their men to pass along new and vital information.

Working closely with our field selling organization is a group of field engineers, located in each of the principal areas. These men are available to take care of highly technical problems which often arise in the field.

THE DISTRIBUTION PROBLEM

As you will recall, the other major problem that confronted us was that of changing our distributing organization. In other words, we had to begin by cutting off certain of our existing jobbers. We then had to secure the necessary new outlets that fitted into our new distribution picture.

So, with our newly created (or renovated) sales force we tackled the distribution problem in the following manner:

In an effort to line up new outlets of the right kind, we mapped out a complete campaign for our salesmen, based largely on field research conducted by our Sales Planning Department. The Sales Planning Department not only specified the type of jobber to be obtained but actually specified the exact jobber we were to appoint in each key area. Our Sales Promotion Department, working in conjunction with Sales Planning then prepared the necessary ammunition to help the salesmen get these specific jobbers.

The campaign basically revolved around two carefully prepared easel presentations. The first was designed to sell our profit possibilities to the prospective jobber in a clean-cut, dramatic manner. First, we dramatically presented the enormous market for fluorescent lighting and emphasized the importance of the jobber's opportunity in this rapidly growing new industry.

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We then graphically and very clearly presented the many new basic sales features which were exclusive advantages of our proposition to the jobber. We told about our complete 90-day guarantee, the only guarantee in the industry. We emphasized our policy of price protection to the jobber—the only policy of its kind in the industry. We offered a unique trial plan enabling the jobber to demonstrate fluorescent with no obligation on his part.

In short, this first easel presented in progressive order all the advantages which we wished the salesman to use in explaining and selling our proposition. You all know how difficult it is to get salesmen to use easel presentations, no matter how well or attractively prepared. We anticipated this difficulty and to make absolutely sure the easel would be used we very aggressively sold our own men on its value at a sales meeting—and, to further insure their proper use the men were required to send in a detailed report after each presentation was made.

EDUCATING THE JOBBER

A salesman, having signed up a prospective jobber with the aid of the first easel presentation, was immediately faced with the prospect of educating the jobber and his salesmen in selling fluorescent lighting, for even electrical jobbers and their men, although better equipped to sell fluorescent than other types of jobbers, still lacked much of the knowledge essential for selling it successfully. Also, of course, they did not know all the facts in Hygrade's own particular story.

Here is where our second easel presentation was put to work. We set up a complete program for an educational jobbers' meeting centering around this presentation. For each new jobber—or possibly several new jobbers in a limited area—we held a meeting, and we attempted to put all the punch we could muster into our program. Not only our salesman, but also our division manager, a company engineer and any available company executives were usually present at the meetings. I personally talked to over 40 of them in the last half of 1940 and early months of this year. Graphically we told the story of fluorescent, just what it is and how it works, Hygrade's pioneering in the development of fluorescent fixtures, its place in the industry, the enormous market for fluorescent lighting, and exactly how to go about selling it.

As still another part of our program at these meetings, one of our field engineers gave what amounted to a short course in the technical aspects of fluorescent and its installation, so that, with the aid of special literature which we provided, the jobbers' salesmen could go out and sell and scientifically lay out an ordinary fluorescent lighting job.

By hammering away, by steadily developing our sales and educational techniques, we are arriving at the point of making jobbers' salesmen good lighting salesmen. I say "are arriving"—I mean that we have at least achieved a plan which has proved itself capable of accomplishing this end.

As in all new, fast-moving industries, the early years are filled with many

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and frequent changes. We realize we still have a lot to learn—that we have by no means finished our task. While we discovered what our problems were and believe we have built a sales and distributing organization to whip these problems, we are certain the future will bring new situations and the need for new methods on our part.

In conclusion, I would like to point out that the fluorescent industry has developed from nothing in 1938 to a $150,000,000 business in 1941. While I do not want to give the impression that we feel entirely responsible for this new industry, we do feel that we have had a certain amount of influence in bringing fluorescent out of the laboratory and into the hands of the consumer. And I am sure that with the distribution and sales policies we have put into effect, and with continuance of our educational program, we will be partially responsible for its further growth.

* * * * * *

Question: How do you handle the matter of profit-sharing?

Mr. Pyle: We set a factor of what we consider as a reasonable cost of doing business, and, also, the amount we can afford to spend for selling expense in a territory, i.e., the man's salary and expenses. We multiply that by the factor and arrive at the volume of business he has to do in that particular territory before he starts to participate in the profit-sharing plan. The factor that we use right now, I believe, is 18.

Member: You don't mean he actually shares in the profits of the business, but just that he receives a percentage, which acts as a bonus?

Mr. Pyle: It is a sort of bonus plan, but I prefer to call it the profit-sharing plan.

Question: How about the problem of over-selling? Are you ever faced with over-selling at specific points? I ask that question for this reason: You control your own salesmen, but since your own salesmen do not approach the consumer, the distributor's salesman is free to over-sell if he wishes to do so.

I have in mind an example of an ultimate effect on one buyer. I went into a grocery store and found fluorescent lighting all over the place. In that particular instance, so much fluorescent lighting had been sold that it was a detriment rather than an asset to the store.

Mr. Pyle: We adopted our educational program simply to overcome that problem. We found that even though the electrical jobber or the electrical distributor of merchandise was familiar with lighting as we have had it in the past, this new form of lighting was so foreign to him that neither he, himself, nor his own salesman knew anything about selling it.

In the plan that we set up we are doing everything we can to educate the jobbers and their salesmen in the right and wrong way to sell fluorescent lighting. It can indeed be definitely oversold, as you have suggested. It can also be undersold.

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Question: You mentioned the Sales Planning Department. Would you tell us a little bit more about that?

Mr. Pyle: Our Sales Planning Department is what some companies might call a sales research department. I used the term, sales planning, because I like it better, and I think it really covers what is involved better than "sales research" would.

The man who is in charge of our Sales Planning Department spends about 50 per cent of his time in the field, finding out mistakes in our present plan, digging up new ideas, and doing a certain amount of promotional work. He brings those new ideas in, we talk them over at the home office, test them out in carefully selected territories, and then if they seem good they become part of the definite sales plan and are put into effect all over the country.

Question: You went out to sell a new type of lighting, and you had an educational pioneering selling job to do. What resistance did you find and what was your technique for overcoming those problems? I am particularly thinking of the consumer, and not the jobber or distributor.

Mr. Pyle: We found varying sources of resistance. The ordinary light bulb most commonly used sells today for 10 or 15 cents. The average price for a fluorescent lamp today, retail, I think is about a dollar and a half. When we first started out to sell it I think the average list price was about two dollars. Take that and add to it the cost of the necessary equipment, such as auxiliaries and transformers, metal and wire and everything else necessary to make a complete lighting unit, and we found that we were going out to sell a man something that would cost him anywhere from 25 to 50 dollars, to take the place of something he had already, the replacement cost of which was considerably less than the new type of lighting.

But, the thing we had to sell was the tremendous actual saving in the new type of lighting. There were savings in many directions—savings to be effected in better labor relations, greater efficiency of employees, and improvement in the general over-all picture. In a store, for example, our type of lighting displayed merchandise better and created sales. We sold our product on an economic basis over a period of time, to overcome the additional immediate cost.

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CREATIVE SALESMANSHIP

By S. M. KINNEY
Vice President and Sales Manager
Talon, Inc.

IT HAS occurred to me that there might be some difference of opinion as to what is meant by creative salesmanship. I consequently took the precaution of looking up in my dictionary the word "create" and was interested to find three definitions as follows: first, "to bring into being, to cause to exist"; second, "to produce, form, or bring to pass, by influence over others"; third, "to produce as a work of thought or imagination."

I had wondered whether the term "creative" as applied to salesmanship was an unspecific word which had entered my vocabulary for lack of a better term. It was gratifying to find that the dictionary meaning so sharply defines the specific character of "creative." Thus creative salesmanship produces something valuable where nothing valuable existed before; it does this by establishing, on behalf of a product, considerations that "make friends and influence people"; and, lastly, it suggests that this process is accomplished by *thinking things through,* with the *imagination* common to all creative work. As with all undertakings of a creative nature, creative salesmanship is therefore work of discovery and invention, *pathfinding* in character, in contrast to work done according to a pattern laid down by another.

Creative salesmanship involves defining the exact nature of sales problems and developing the techniques of successfully handling them. In the nature of the case, this is a *field job* to be worked out by salesmen in the fight to get and to keep business. For only salesmen on the line are in a position to develop comprehensive understanding of the sales problems encountered by the company, and to work out by trial and error the methods most successful in solving them.

It follows that creative salesmanship is as useful in solving the complex and ever-changing problems introduced by competitive activity in markets which already exist, as in the creation of a market for a new product.

It is also apparent that the man who does a creative (as distinct from a perfunctory or routine) job of salesmanship has to possess an active, inquiring

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mind, with energy and capacity to penetrate beneath the surface of the problems encountered.

The starting point, therefore, in developing creative quality in selling is the selection of men of the right type.

Perhaps the reason for the scarcity of creative salesmanship in some organizations lies in the fact that salesmen have not been selected with a view to their potential creative ability. The principles governing the selection of salesmen is too broad a subject to include in this discussion, but in view of its importance I should like to state one conclusion which our experience has made clear: It *is* possible to find men who are excellent salesmen and who are also good *students*, with active, inquiring and prehensile minds. Our experience checks with the statement made by the vice president of the General Electric Company, in an AMA conference session on selection of salesmen last year, when he stated that his company had found a striking correlation between men who made successful records as salesmen and those who had done high-grade academic work in the colleges from which they were taken.

This observation was noteworthy because it exploded the once popular idea that good students seldom make good salesmen. One thing is certain: Unless the men employed for sales assignments have the capacity to do creative work before they are selected and brought into the organization, it is useless to expect creative salesmanship from them *after* they are in the organization.

DEVELOPING ENTHUSIASM

The next essential step is to make salesmen definitely understand that creative salesmanship is expected. They should be shown by illustration the exact meaning of creative work as applied to their particular job, and informed that it is the basis for recognition and advancement. With consistent emphasis on the constructive and creative side of his job, each salesman may gain a sense of participation in the responsibility of management, and with it some of the thrill of seeing a whole plan of sales and advertising procedure unfold and achieve its objectives. There is inspiration for any salesman who devises a new and successful turn of sales technique, or who discovers some feature in the product which becomes the spearhead of a sales drive for a certain class of business. Few rewards are more gratifying than seeing one's brain-child recognized and adapted successfully in a coordinated plan.

In this way creative salesmanship builds organization enthusiasm and pride of accomplishment. Eventually the entire organization is sharpened up to a higher pitch of effort and a more intensive concentration on the vital sales problems of the business. The men on the line acquire the sense of enterprise and personal importance usually associated with "being in business for themselves."

The other day I heard a story that seems appropriate in this connection. It pertains to a new recruit at Camp Dix who seemed to have none of the makings of a soldier. The drill sergeant had been unable to get him to stand erect,

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handle a gun like a soldier, or keep pace with the rest of the squad, despite the individual attention he was given in the awkward squad. Finally, on the sergeant's request, he was turned over to another man to see what could be done to overcome his continual sloppiness and lack of coordination. On the next review the drill sergeant was amazed to see his man standing erect, with shoulders back and chin in, going through the manual like a veteran. He sought out the new sergeant and inquired, "What in the world happened to make a soldier out of that so-and-so?" The second sergeant replied, "Well, as a last chance I had him issued new equipment from head to foot, a suit that fit, new shoes, new hat, new gun, and when he was all dressed up I stood before him and said, 'Now, Levinsky, you're in business for yourself!'" Sometimes it makes a lot of difference in our attitude to be in business for ourselves.

Occasionally sales managers feel that the working out of creative ideas for advertising and sales is a job for outside specialists who do a certain amount of "investigation" and emerge with sweeping proposals for the improvement of advertising and sales methods. Now, it is not my purpose to belittle helpful and creative ideas which may be obtained from sources outside the business. But it is my experience that outside counsel is most effective when applied to isolated and specialized problems which require experience and training not properly expected from a sales organization.

And outside counsel is *never* a satisfactory substitute for creative salesmanship within the sales organization. The need for creative salesmanship lies in ever-changing but always-present resistances to sales progress, whether due to active and resourceful competitors or to inertia, habit, and human opposition to change. The need for creative salesmanship is an everyday one, not to be filled by occasional inspirational "hot shots" from either inside or outside the business.

POLICIES THAT STIMULATE CREATIVE SALES EFFORT

Since there is probably little difference of opinion as to the desirability of creative salesmanship, I shall devote some space to a few practical methods which we have found to stimulate creative efforts among our salesmen.

1. ***Specialized Assignments.*** One of the most important means of developing creative salesmanship is to give each salesman, wherever practical, a specialized assignment wherein he has one industry to serve, or one class of retail trade to work upon, etc. Under these conditions an able salesman soon becomes really expert in his understanding of *all* the conditions and problems involved in developing a certain class of business. He gains recognition in the organization and in the trade as a specialist. His "know how" of handling the problems involved is a valuable aid to other salesmen in the organization who are given mixed assignments and lack the opportunity to acquire thorough and comprehensive understanding of the most adroit and effective techniques for his particular field.

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Such men achieve pride in their position and in the recognition which naturally results from the creative ideas they evolve.

In some cases a group of men work on the same industry. Among them there are frequently subdivisions of the same general assignments, so that they maintain friendly rivalry and at the same time supplement each other's findings and sales methods.

Under these conditions, emphasis on creative ability in selling is naturally stimulated from the very outset of the salesman's work. The important thing is that methods be established whereby all salesmen handling similar accounts and therefore facing similar problems—regardless of territory or branch office —receive the benefit of each other's findings. It is essential to create and maintain in the salesmen a spirit of willingness to accept creative ideas from others, develop them until they become their own, and use them as the basis for the execution of a coordinated drive for the particular business.

2. *Supervision.* The key to the whole problem of developing creative salesmanship centers on the caliber, character and ability of the branch managers and the division managers who select, train and supervise sales groups. First, they must be salesmen, for only supervisors who are salesmen can win and maintain the respect of other salesmen. They must be students, so that they can train and direct salesmen in thorough investigation and analysis of the problems to be solved. They must be inspiring teachers and leaders if they would keep fresh the interest and insight of their men in the complex and ever-changing problems of selling.

Deserving of special mention in the discussion of supervisory methods are our weekly group meetings and the more frequent individual conferences. The weekly conferences provide an opportunity for a review of all problems arising during the week, and the methods which have been found most helpful in overcoming the obstacles encountered. These discussions bring each man up-to-date on the findings of the ablest members of the group. Penetrating ideas concerning sales technique, and proposals affecting advertising approach, generally result from the meetings; these are communicated to copywriters and to other salesmen handling the problems of the same industry.

In addition to the group conferences—and in all cases where a salesman has mixed assignments—daily personal conferences are held between supervisor and salesman. These are not formal or on a time schedule. They afford a friendly opportunity for the supervisor to make suggestions as to approach and method, and naturally result in stressing the creative aspect of the job.

One of the most important functions of supervisors is the quarterly checking of each salesman as to his sales methods and ability. We have found no substitute for a supervisor's observation of salesmen in action. It is essential to have the salesman understand that the supervisor is to be merely an onlooker who does not participate in handling of the interview. These test presentations are always the object of special preparation and planning—with

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the help of the supervisor, if that is desired. The accounts to be called on are selected by the supervisor from among those whose sales response has been largely negative; this prevents the salesman from calling on favorable accounts. Properly handled, these test solicitations are of great benefit to the salesman—and illuminating to the supervisor with respect to the ability and limitations of the salesman. They lend direction to the training of each man and assure each of full appreciation of his technique and skill.

Training and supervision thus become highly concrete functions, the object of which is to improve the performance of each man on the staff, and provide each with the amount of encouragement, correction and criticism best calculated to achieve this end. And it has been our experience that no method of sales training and direction is adequate without the opportunity to observe salesmen in action.

3. *The Research Method and the Consumer Point of View.* It is necessary in our business to adopt a research attitude in approaching new problems as well as those which have acquired new aspects. For example, our business calls for continual investigation of the production methods used in the factories of our customers. These production setups are frequently the result of counsel by eminent production engineers and have sometimes been installed under their direction. Not infrequently the use of our product involves changes in the sequence of production and in the balance between operations and the number of operators in certain production units. It is essential that our men who have production assignments approach these problems from the research standpoint, for unless we can adapt our product to the production scheme of the manufacturers who are expected to employ it we automatically create resistance which is extremely difficult to overcome.

In addition to investigating the production methods of our customers, we must always be mindful of the consumer point of view. For, in many instances, a number of seasons—perhaps several years—are required from the launching of a program of selling an industry, before sales are sufficiently large to justify the expense which has gone into our selling campaign. Obviously, our interpretation of consumer attitude toward the proposed use of our product must be sound if the program is to be successful. This necessitates, at the outset of our approach to a new market, extensive trials of the proposed application by consumers of different classes, with arrangements for frequent reports during the course of these trials—not only to test the technique of application but to determine by continual check whether the new idea is *really satisfactory* to the consumer and is commercially preferable to the previous method of closure.

No factor is more important in creative salesmanship than the consumer point of view. Recognition of the consumer viewpoint is essential to the fundamental convictions necessary for persuasive salesmanship; it is a key to the soundness of advertising appeal. Despite the obvious importance of the consumer to the success of any enterprise, it is remarkable how many manufac-

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turers become so preoccupied with the problems of their own business, their competition, and the attitude of the retail trade that they wholly disregard the reaction of intelligent consumers to the business policies they are pursuing.

One of the phenomena encountered in our business is the number and variety of obstacles that can be set up to prevent the consumer from getting what he wants and is willing to pay for. Overcoming such obstacles requires thorough familiarity with consumer attitude, and constant watchfulness lest we lose track of fundamentals in solving our immediate problems.

RESEARCH APPLICATION

A focal point for the application of research and knowledge of consumer attitude is in the analysis of the strength of our competitors' product appeal in those fields in which we do not make anticipated headway. As an illustration: We have for some seasons been struggling with the problem of securing a foothold in a certain subdivision of the garment business, and have been amazed to note practically universal use of a single competitor's product. From none of the manufacturers in the industry could we ascertain any reason for the preference, except the usual small price differential. As a last resort, the salesmen in charge of this business, working with a retail merchandising group in our organization, decided to approach the problem by a door-to-door canvass of consumers in typical residential neighborhoods. The consumers were asked a carefully compiled set of questions, the purpose of which was to discover whether they were entirely satisfied with the competitive product and, if not, at what point and for what reason dissatisfaction existed. The obvious purpose was to determine any points of superiority in our own product.

A source of almost general dissatisfaction in the product of our competitor—which had been entirely unsuspected—was disclosed. We were already manufacturing a type of closure which filled this specific need. It should be noted that we had not previously been selling that type of closure for this particular purpose.

Immediately the point of superiority uncovered in this research became the spearhead of a trade magazine campaign and later a consumer campaign, both coordinated with an energetic drive by the salesmen assigned to the industry in question. The result has been that, since the turn of the year, we have won over some 97 manufacturers in the industry to 100 per cent use of our product, and have secured the support of a large number of important retailers and chain-store purchasers who will accept nothing but our product since they have learned that it fills the consumer's need.

This application of the research method to sales problems was not the contribution of outside counsel, nor did it originate with the sales manager or other officials of the company. It illustrates the principle that the logical source of creative ideas applicable to the business—and usable in advertising as well as in general sales procedure—is the sales organization.

Another illustration of the research method in salesmanship is the develop-

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ment of a comprehensive record of timing of the seasonal operations in one of our most important industries. It has been observed by our salesmen that some of our best product innovations, new advertising appeals, etc., have matured just *after* they would have been most effective from a sales standpoint. Investigation disclosed rather specific dates for designing in each branch of the industry in question. There are also definite dates for purchasing and pricing of the lines. Preview openings in this industry are regularly timed, as are also dates for general openings, for peak retail buying periods, etc. Each of these dates has special significance in relation to trade advertising, various phases of sales activity, consumer advertising or point-of-purchase trade advertising. Complete organization of this timing information was instituted at the instance of the sales organization so that salesmen could exert their greatest effort at the precise time it promised the best results.

4. ***Coordination of Effort.*** We have discovered that a sales program is most effective when coordinated among our various branch offices and conducted simultaneously in all territories; this, incidentally, has resulted in periodic reviews of the best sales practices and advertising appeals. There seems little doubt that organized, coordinated and simultaneous sales drives are much more productive than similar sales efforts dispersed over a period of time and uncoordinated among the various territories. The reason for this seems to lie in the fact that all channels of trade are in close touch with each other and likely to know what is being done at other points where operations are traditionally successful. As a result of our simultaneous sales programs, a considerable amount of helpful discussion is carried on among those engaged in the same business, and between manufacturers and retailers.

The fact that we operate on a time schedule and under a coordinated plan makes it necessary for a specialized sales group periodically to crystallize its findings and recommendations with respect to the new season's efforts; and this has of course heightened the pressure for creative salesmanship.

5. ***Reward by Recognition and Advancement.*** Another organization principle which has been conducive to creative work is the recognition of creative ability through advancement. Wherever feasible, positions of responsibility are filled by promotions from within the organization.

NEGATIVE INFLUENCES ON CREATIVE SALESMANSHIP

It may be appropriate to consider here the influences which tend to undermine the vitality and continuity of creative salesmanship. Most of these are obvious, and I doubt that there is a panacea for any of them. Every sales manager must be able to minimize or offset most of these negative influences if his sales force is to maintain its creative vitality.

The most serious of these negative influences is the development of cliques within the sales force, and the organization politics that inevitably results. Under these conditions there nearly always follow a breakdown of loyalty to

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the company and to the executive organization, and wholesale criticism of advertising, product, salaries, etc. In an atmosphere of politics, other salesmen's work is discounted and the directions of supervisors misinterpreted. The result is a general sense of dissatisfaction and a fear psychology on the part of those men who are anxious to keep their jobs and make progress.

Perhaps the most poisonous aspect of this situation is the fact that most of the time and mental energy of the men is spent in building their own organization "fences" and instituting counter-propaganda. Little time or energy remains for constructive and creative work, and inevitably quality as well as quantity suffers.

"SPAN OF CONTROL"

It is our observation that the best antidote to this situation is an adequate proportion of supervisors to men. It goes without saying that the supervisors must be able men, with constructive, penetrating minds. As to what constitutes an adequate ratio of supervisors to regular salesmen, it has been our experience that the ratio should be about one supervisor to 15 men or less. I am aware of the fact that any specific ratio can be challenged, and perhaps successfully. But it is our conviction that best results are achieved when competent supervision is provided in sufficient quantity to facilitate daily contact with the salesmen, and when supervisors know exactly how much work each man is doing and how effectively he is representing the company's interests.

With regard to loyalty there exists a great deal of misunderstanding. We can all agree that a high degree of loyalty among employees benefits both themselves and their companies, but the fact of the matter is that loyalty is a subtle and delicate thing. Its most outstanding characteristic is that it is a two-way virtue; in other words, men are loyal to companies and superiors when the latter are loyal to them. Loyalty cannot be induced at will or created by threat. It is a natural outgrowth of a relationship which is sound, substantial and pleasing. When supervision gives generous credit for accomplishments, and shares the blame for failures, loyalty flourishes. By and large, we are accorded all the loyalty we deserve, and the problem is not so much to seek more as to *deserve* more.

In conclusion, I should like to say that we have derived considerable benefit from instilling in salesmen a straightforward understanding of what salesmanship involves. Stripped of its complications, it seems to me that salesmanship comprises two steps: first, forming an honest conviction as to what a customer or prospect should do in his own interest; second, persuading him to do it. On the whole, we encounter quite as much difficulty in the first step as in the second one. A sound decision as to what a class of customers or what individual customers should do in their own interests with respect to your type of product is not an easy matter. It requires considerable intellectual capacity and thought for a salesman to understand fully *all* the conditions bearing on the self-interests of the customer. His position in his industry, the character of his product, the

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nature of his sales force and sales methods, his competition, his standing in the retail trade—all these enter into his making a sound decision as to the purchase of a specific type of product. Once the facts are wholly understood, there is comparatively little difficulty in making the customer *feel* as the salesman does. And it is as a result of *feeling*, rather than argument, that he is bound to *act*.

Most salesmen are burdened with routine, service responsibilities, checking of production and delivery, and even clerical tasks in connection with their reports, etc. Yet it is essential that they understand the true nature of salesmanship, and not imagine they are selling when they are in reality busy with duties a file clerk or junior employee could perform as well. Accordingly, we have undertaken to protect the salesmen against being involved in unproductive work by assigning as much of the routine and clerical duties as possible to others.

The second factor that I would reemphasize as exerting the most potent influence upon the development of creative salesmanship is adequate executive supervision. This implies supervision which is adequate as to its experience, its mentality, and its determination to be helpful to others. In his book, "The Functions of the Executive," Chester Barnard develops the concept that the function of a good executive is to be an able teacher. Thus the supervisors on whom we are dependent for creative salesmanship must be good teachers, with realistic ideas derived from successful experience as salesmen.

The last point I would make in conclusion constitutes a "trade secret" of a good sales manager. Some years ago, before I had sales management experience, I was investigating the sales methods of so-called "star-salesmen" operating for concerns of national importance in their fields. I met some splendid salesmen, and from each one I believe I learned the key to his sales success. But the important fact was that the technique of each was to all intents and purposes a secret to himself. No provision apparently was made by these salesmen's organizations to ascertain what techniques and procedures produced their success—with the result that salesmen of the same company utilized widely differing methods, each perhaps with definite success.

I resolved that if I ever became a sales manager, one of the things I would do would be to set up an organization to determine the methods contributing to the success of outstanding men; and I decided, so far as humanly possible, to make those methods of use to other less inventive men. I am of course aware that there must be a degree of individuality in any good salesman's work; it is impracticable to pass along a "canned" presentation. On the other hand, the techniques of creative salesmanship evolved by able men can be of great value in determining the sales strategy and procedures of others. And, if properly presented, they will be broadly used.

So my "trade secret" is this: The most brilliant sales and advertising strategy may well be based on the findings and techniques of creative salesmen on the firing line in your own organization. It is the old story of "Acres of Diamonds" all over again.

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MARKETING SERIES NUMBER 44

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INTRODUCTION

By G. LYNN SUMNER
President
The G. Lynn Sumner Company
New York, N. Y.

JUST about 20 years ago, at a luncheon in this same room I gave a talk on the subject, "The Old Order Changeth." I remember the incident very well, because *Printers' Ink* began its report on this talk by saying that Mr. Sumner took his text from the Scripture. Whereupon the editor of *Printers' Ink* was deluged with letters pointing out that it was not Scripture but a quotation from Tennyson's "Morte d'Arthur." I don't think I knew whether it was Scripture or not, but I certainly did know that the old order was changing.

Now, back in those days, what were we talking about when we said that the old order was changing? We were talking about changes that then, to us, seemed very important and very critical—changes that had been brought about by the automobile and the telephone, and the radio which was just in its infancy, and the greater concentration of business in marketing centers, as well as the rapidly increasing circulation of magazines and newspapers. Those conditions did seem very important indeed. And yet, as we look back upon them now, those changes through which our markets were going, and through which the people of this country were going, were slow-paced indeed compared with the quick changes that we are experiencing at this moment. Three years ago, for example, we had somewhere between eleven and thirteen millions unemployed. We were talking about the generation that had never had a job, the young people who were coming out of school with nothing waiting for them in the way of employment.

Today we face a complete change from that in the enormous rise of employment through defense manufacturing, through the fact that young men, who, two or three years ago did not know what was going to happen to them, know very well that if they are in reasonably good health they are going to be in the army. There is the fact that families are picking up and moving from one community to another. There is also the fact that billions almost beyond comprehension are being poured into the manufacture of munitions, supplies, and other goods for defense purposes.

In normal times the manufacturer, the advertiser, the sales manager, asks himself: What is my market and where is my market, and how shall I reach my market? If that is true in normal times, how much more of a problem is it today to answer those questions, when a manufacturer's market may have temporarily disappeared and he must adjust himself to finding new places for

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his goods; when the people who have been purchasing his goods may be in army camps, may be building army camps, may be in defense industries; may have moved from one part of the country to another. He has to make a complete reappraisal of what his market is, where his market is, and how he can best reach it.

IMPORTANT MARKET FACTORS

Now, there are a number of factors that I would like to outline very briefly, as a preface to the papers which follow. They are factors that, it seems to me, affect a consideration of markets in this year of 1941. First, we have an enormously increased production now under way, and it is increasing as fast as plants can be built to handle it. On top of the normal manufacture of about sixty billion dollars' worth of goods, there is to be laid another seventeen billion dollars' worth of goods. That is a tremendous increase in production. There is the disruption and demoralization to a certain extent of certain industries in their use of products—the fact that wool and aluminum and steel and many chemical products no longer are going to flow through the channels of normal industry. Many of them that you have been using will no longer be available to you, instead they will go to other concerns where it is a part of the defense plan that they should be directed. Actually something like 100 new towns are suddenly developing throughout the United States, with a total population of anywhere from five or six millions to more than ten millions. Those new towns are the army camps where there will be from eight hundred thousand to a million men, in centers where towns did not even exist before. And that is an indication of changing markets.

The military training which the young men are going to receive in the next year or two, or perhaps three, is going to change their living habits to a large extent. For some it will be the first job they have ever had. How do we know how it is going to affect what they do and where they live afterwards.

There is the question of priorities which is also tied up with the disruption of the flow of raw materials. The question of priorities is going to have an enormous effect on what you can manufacture, and, therefore, on what you can or cannot sell.

There is the problem of rising costs of materials and of labor entering into the cost of your products, and that bears a definite relationship to what you make and how you sell.

EFFECT OF TAX REVISIONS

Then there is the question we are only reading about today (because we will not feel it until about a year from now), and that is the question of taxes. That is going to have a very great and profound effect upon markets, as I am sure you will all agree. There is a theory accepted in Washington which is the basis of the proposed revision of the income tax laws, namely, that if we greatly

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increase the income of the people engaged in defense industries, that increase should be taken away from them so that they cannot spend it somewhere else. By so doing, it is thought, we will control available funds and avoid inflation and keep things on a fairly normal basis.

So, on the one hand, we find a community like Wichita, Kan., for instance, with a population of 113,000 people, and with $37,000,000 worth of war contracts suddenly thrown into it—which means no less than $435 per capita in increased income for that city.

You might say at once that Wichita is going to be a mighty fine market, with all of that additional money. But then, in the course of a few weeks, you will read the terms of the new increases in income taxes, and you will find that the man who made $5,000 last year, as a typical example, and paid a tax of $110, is going to pay a tax of about $510 for 1941, payable in 1942. That means that in principle the increase that each man receives for helping to build supplies and munitions is going to be taken away from him in taxes and put right back into the war program.

So you are on the horns of a dilemma in this situation. You are tremendously encouraged by the markets created by large spending, and at the same time you are handicapped by the amount of money that is taken away from your customers for tax purposes.

There is also going to be an inequality in the whole thing, because that same tax rate which applies to the man who has a large increase in income through his employment in defense industries, will apply also to the man who does not have any increase. He has an income average of about $5,000 a year and he has to pay five times as much in taxes as he did last year.

Last night I heard on the radio, that under the present taxing system in Great Britain, the man who has an income of $550,000 a year (and most of us probably can look at such a case objectively), will have only about $28,000, left, by the time he has finished paying his taxes.

So you see we can talk about priorities and scarcities and movements of population. But in the background, hovering over us, is the problem of taxation that is possibly going to have a more far-reaching effect on markets this year, next year, the year after, and for years to come, than we have had any conception of up to this time.

I personally feel that people generally are not going to feel the pinch of this taxation until about the spring of 1942. That is just human nature. You don't begin to feel it until they are around with the basket to collect it. So I believe we are going to have a good year in 1941. But we are going to be faced with a situation of restricted buying power in 1942.

The papers following present six advertising media from the viewpoint of what these media afford in a period of changing times. We hope that from these papers you will get a better conception of how you can reach your markets through the media that are available.

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RADIO'S PART IN THE DEFENSE OF TOMORROW'S BUSINESS

By KEN R. DYKE
Director of Promotion
National Broadcasting Company, Inc.

BEFORE getting down to the discussion of radio and its part in defense-time selling, let us look briefly and unemotionally at some basic truths.

It is apparent that there are many who raise their eyebrows suspiciously at the phrase, "Business as Usual," in these times when every sacrifice must be made in the interests of national defense. But, surely, we will all agree that there would be nothing to fight for if, at the end of the struggle, only want and chaos prevailed. We of American business must continue, in and out of emergencies, to build and maintain the opportunities for peaceful employment. to which even this war-torn world will inevitably return, sooner or later.

Two things we must do. Both are equally vital to present and future security. One is concerned with possible war, and with defense and armament production. The other is concerned with peace and the continued production of new business, new products, new services and new customers. These two programs must go forward simultaneously. We can no more safely afford to wait unprepared for *peace* and *reconstruction* than we can afford to be without adequate defense in *arms* and *trained men.*

It is true that intelligent men in America today have conjured up a not too-pleasant picture of the aftermath of possible war or long sustained defense activities—over-expansion, a staggering national debt, soaring taxes, inflation, unrest, uprising, perhaps a dictatorship. But, we business men deserve to have this happen to us if we accept these dire forebodings as a future fate that we *cannot* escape. No one is going to help business—except business itself. And to help ourselves, we must get moving fast on an intelligent, sane, efficient program of management, adjusted to the changing conditions of our times.

We can do this by facing the fact that the business of defense today must

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concern itself in part, at least, with the defense of the business of tomorrow. We must, if we can, properly coordinate expansion for defense needs with the conservation and improvement of our normal marketing and sales efforts. Lynn Sumner has ably pictured the major phenomena of the current marketing problem, the changes that have already taken place and those ahead. There are hundreds of newly important distribution points—thousands of old customers in new locations and environments. Villages of a thousand have almost overnight become industrial centers of thirty thousand. More important still is the psychological change in our people—new attitudes towards their lives, their work, their futures—new sets of buying habits, desires and needs. All problems for you who direct advertising and sales activities. And equally problems for us, the advertising media—publishers and broadcasters alike.

RADIO ADVERTISING

If this symposium had been held back in 1925, it is highly doubtful whether we, of radio, would have been included for consideration as one of the major advertising media. In reviewing material for this talk the other day, I ran across the following statements, all made in 1925, by four well-known citizens, in reference to radio broadcasting.

An important government spokesman said: "I believe that the quickest way to kill broadcasting would be to use it for direct advertising. If a speech by the President is to be used as the meat in a sandwich of two patent medicines, there will be no radio left."

A radio dealer said: "There is no future in radio broadcasting as an advertising medium."

A leading radio editor said: "If anyone attempted to make an advertising talk on the air telling why his particular brand of tires was the best, he would absolutely fail."

And finally, one of the largest soap advertisers said: "We have concluded that the novelty of advertising over the radio has worn off and that radio fans do not want to respond."

These statements were made in 1925. It is interesting to note in passing that one of these gentlemen later became President of the United States. Another became a Vice President of the National Broadcasting Company. And the fourth now spends millions of dollars a year on radio advertising.

Radio, as a direct advertising medium, had little to offer in 1925, and advertisers rightfully challenged its value as a sales-producing medium.

It is difficult to realize that it is only 20 short years since the first public broadcast. On November 2, 1920, a few hundred pioneer owners of crystal sets heard through their earphones the returns of the Harding-Cox presidential election, broadcast from Station KDKA in Pittsburgh. The first "commercial" ever broadcast was a talk on "Jackson Heights," presented by the Queensboro Corporation over Station WEAF, New York, August 28, 1922. Cost for ten

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minutes—$100! Size of audience unknown! Results—four new apartment houses completely rented! Few people realize that it wasn't until 13 years ago in 1928 that *nationwide* commercial broadcasting became possible, when NBC opened the first transcontinental line.

FACTS ABOUT RADIO AUDIENCE

In 1925 only 14 per cent of the families in the United States owned radios. Today, from a single microphone in this room, your voice could be listened to by more than 29,000,000 radio families—84 per cent of *all* families in the United States. And, Mr. John Q. Public is not contented with *one* radio, not at all. These 29,000,000 radio families own a total of over 50,000,000 sets. Nor is John Q. satisfied to be without his radio when he leaves the house, so as a result there are today on the highways of America 8,000,000 automobiles radio-equipped. And that newest of radio sets, the portable, now numbers 1,400,000 owners.

You who are concerned with sales will perhaps find it interesting to know that radio set sales in 1940 exceeded 11,000,000—by far the biggest year that the industry has ever known. This represents an approximate expenditure on the part of the public of $400,000,000 for new sets, and it means that nearly 25 per cent of all sets in use are less than one year old.

We find another measure of the extent to which radio satisfies a human want when we compare it with the ownership of other modern conveniences. Consider this fact—the number of radio sets owned by the American public today exceeds the total number of telephones, electric refrigerators and washing machines *combined*. But even more significant than the number of radio sets is the measure of their use, for here we find to what extent radio has become an important and indispensable part of the average American's life.

During the past few years, few media problems have been more thoroughly and persistently covered by research than the question of radio listening in all its phases. Important to you as sales and advertising executives is the fact that research proves that radio reaches people in *all* income levels, and that daily use of radio by all groups is on the increase. Seventy per cent of all radios are used daily, being turned on an average of more than 5 hours per day. In a recent survey conducted by *Fortune* to learn America's favorite recreations, it was found that "listening to the radio" was more popular among both men and women than any other form of activity.

Reports of relief investigators reveal that during the depth of the depression when unemployment was at its worst, families clung to their radios, preferring to make almost any other sacrifice rather than part with the entertainment that they could summon at almost any hour of the day or night from this friend in the home.

To quote from a recent statement by a prominent advertising executive: "Radio takes its power from the vast number of people who own radio sets—the

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amazing size of its habitual listening audience—the confidence of this audience in what they hear—the ability of radio to reach all levels of intelligence and income—and the key-place which it holds as a source of recreation to the average family."

It is important to understand and appreciate these basic facts and figures covering radio's place today in the life of the average American family.

PUBLIC SERVICE VALUE

Few businesses have remained untouched by world causes, and plans for defense. Radio is no exception. It has been quick to gear itself to these changed conditions. Two months ago, the President of the United States in his eloquent tribute to the progress of radio in two short decades said:

"Today the need is greater than ever that broadcasting should perform its functions as a medium of public information. Factual and accurate news made available to all of our people is a basic essential of democracy. Radio has done its job well in this field." That broadcasting has performed a real service along these lines is evident to every radio listener who has followed events from the theatres of the war abroad. To do this radio had to meet a challenge unprecedented in its history. It met it through the cooperation of overseas newsmen who were enlisted in the service of broadcasting.

Brilliant eye-witness descriptions, on-the-spot news summaries by American foreign correspondents, as well as reports from our own staff observers, are broadcast directly from the scene of hostilities over all the major networks. Thus, radio has joined the press in keeping the American public better informed than ever before on developments at home and abroad. News programs, both sustaining and commercial, have attained new significance and importance. Recent surveys made by the Cooperative Analysis of Broadcasting show that listening to news broadcasts between 8 and 12 P.M. has increased some 55 per cent during the past year.

Radio is performing a major function in these troubled days in the maintenance of national morale. First, through this uninterrupted flow of information and news, free and uncensored, to the American people. Second, through the continuance of entertainment and aids for relaxation that the spirit of the people may be maintained in as nearly a normal pattern of life as is possible.

No medium of mass communication such as radio or the press can be considered merely in the light of its ability to carry an advertising message to potential customers. Radio, for example, constitutes the most effective means of direct and almost instantaneous communication with practically the entire American public. In times like these its public service value is obvious. Radio, we sincerely believe, is accepting these responsibilities and meeting them in a way which is further strengthening the close ties of habit which already bind it close to your life and mine.

This, I am sure, has great significance to sales and advertising executives.

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Hundreds of thousands of Americans are moving to new sites of employment, changing scenes, making new friends, setting up new homes. But wherever they go they find their favorite radio programs following them—in fact, there when they arrive. Radio has no need for remodeled distribution or circulation plans to effectively cover changes in markets or population centers. The radio service in Zoomtown which overnight goes from 3,000 to 30,000 inhabitants needs no revamping, it is there on top, merely requiring the twisting of a dial.

EFFECTIVENESS OF BROADCAST ADVERTISING

Now let us look squarely at radio, 1941 model, as an advertising medium, and its capabilities of helping you in your selling job today and tomorrow. You're interested in selling goods. Your interest in radio's public service accomplishments is after all, in the main, rather mild and academic. What you're interested in is the pay-off. In addition to its entertainment and informative values, does radio produce results? Does it effectively and economically "win sales and influence people"?

Well, last year the annual gross volume of broadcast advertising totaled $208,000,000. Interesting, indeed, is the fact that, while radio is still relatively new as an advertising medium, 53 per cent of the network advertisers have used network radio for six or more consecutive years. Not all advertisers can use radio every week in the year, but 80 of the country's largest advertisers did not miss one week of broadcasting during 1939. No greater proof of radio's effectiveness as a selling tool can be presented than its continued and increasing use by the nation's shrewdest and canniest buyers of advertising time and space.

But a cynic might say, on the other hand, that big companies can pay the price of radio programs as an indulgence. To such doubting Thomases may I point out that nearly $60,000,000 of radio's annual time sales is spent by *local* advertisers—companies too small to afford an indulgence—who can continue radio advertising only so long as their experience shows that it pays.

Too, many people think of radio only as one medium, actually it is several. Local or spot broadcasting over individual stations differs as much from network broadcasting as newspapers differ from magazines. Even more important is the distinction between evening and daytime broadcasting. During evening hours radio reaches the entire family. Its broad appeal is to all ages and both sexes. During the daytime, it becomes primarily a woman's medium, in which capacity it has accomplished results little short of miraculous, for its sponsors.

All media have files filled with success stories, tributes to advertising jobs well done. And all media have their share of failures and cancellations. Radio is no exception to this rule.

In radio, as in all other forms of advertising, the human equation, the whims, interests, the response of the ordinary man or woman, determine the difference between success and failure. No one can buy the attention of the public by buying time on the air. All you get is the opportunity to attract an

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audience. All over the United States, in millions of homes are people willing to listen to your program, your selling message. But they'll only listen to something they like, and no one program will please them all. Every program is in competition not only with other programs on the air but with everything else that people might do during the same period.

Today, the radio public is highly selective in its "tuning-in" habits. Its listening is *voluntary* listening, and the first lesson a radio advertiser learns is that his program must please the public's taste, whether it suits his wife's or not. If it pleases his wife and the public, that's fortunate—and perhaps rare. But if it pleases only his wife, it may be almost a total financial loss.

Many of you are as familiar with these facts about broadcasting as I am, but I am sure they lose nothing by reiteration, and they are of vital importance to you who may use radio for the first time in your sales plans.

Never in the history of advertising has the buyer had more facts available about the major media than he has today.

Qualitative research by media has taken its place beside quantitative analysis. Facts about readership are recognized as being as important or more important than gross circulation statistics. And facts in radio about what programs and what stations people actually do listen to are obviously more important than astronomical figures on the total number of radio families who *can* hear a station's signal.

You need not buy radio on "faith" or "blue sky" claims. You will find that listening habits to networks and stations have been scientifically studied and analyzed so that you may accurately and economically plot proper coverage of markets, and effectively plan your merchandising and sales follow-through.

CONCLUSION

In closing, we of radio are justifiably proud that broadcast advertising in 20 short years has become one of the major national mediums available for the use of American business.

Today, as we stand on the threshold of what may prove to be the most crucial times in the history of our country, we are confident that radio will play a vital and useful part in the defense of the American way of life. It will serve American enterprise by maintaining and expanding existing markets, preserving the identity and reputation of businesses temporarily forced to divert all their attention to the demands of national defense, sustaining public morale during whatever crises may arise, and cushioning the shock of the eventual transition from times of war to times of peace.

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THE FUNCTION OF MAGAZINES IN TODAY'S SELLING

By DONALD M. HOBART
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ALL of you are doubtless acquainted with the general story of each type of medium. Our purpose here is to discuss how these media are meeting today's conditions. In presenting the case for magazines under present-day conditions, I want to acknowledge, first of all, the importance of advertising and the importance of the functions performed by all types of advertising media. Each plays its part. No one medium can be all things to all people.

If there were no case for advertising in general, there would obviously be no case for magazines as advertising media. The case for advertising rests in large part on the fact that it enables each product to find its proper place and function in the toothpaste field, the cereal field or any other product classification in which it expects to compete. The same specialization of function is true of media, not only as between broad types of media, but among magazines themselves.

There are magazines of all kinds and descriptions. There are many groups and varieties within groups. Here is an industry of great vitality—expanding, introducing new products, sloughing off the weak ones and rounding out the past decade with a healthy growth both in number of products and in units produced and bought by customers.

Before attacking the broad problem of how magazines may be used in adjusting sales programs to the problems of today, it is essential that we understand from the record why magazines have been able to make such a major contribution during the past 60 years, and what are the special characteristics of magazines which have made these contributions possible. This review of the

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record is important as we appraise the present and plan for the future.

A TYPICALLY AMERICAN INSTITUTION

First, let us consider the fundamental question of why national magazines have been able to play such a decisive role in building the America which we know today. The magazine is a typically American institution. In fact, our list of great national magazines constitutes a set of sales instruments unique among the nations of the world. Turning this around, we may ask: "Why has America produced this unique institution of the national magazine?" A complete answer would have to go deeply into the essential character of American culture as contrasted with that of other great nations. Part of the answer certainly lies in three obvious factors which may be described briefly.

NATIONAL MARKET

The first is the magnitude of the national market of the United States, which has often been called the largest free trade area in the world. It is possible for hundreds of manufacturers to offer specialized products to this market and to achieve the advantages of mass production at a sales volume which in each case is only a tiny fraction of 1 per cent of the total purchases of consumers. Confined to any one state or city, it would have been impossible to achieve the mass production level.

These production possibilities would have remained forever closed unless an economical means of offering these products nationally had developed. Through magazines it was possible to offer products nationally and at a reasonable price, and to find those families in each county and city who felt that these products met their needs better than any other. Magazines also offered a logical means for growth from the market provided by these first users, who merely needed to be found, to the larger market, including others who had to be convinced by constant repetition. Thus magazines were building America while America was building magazines.

HOMOGENEITY OF AMERICANS

The second great factor is the essential homogeneity of our people. In the first place, the occupational and income structure of every community is basically the same, with even the smaller places having their full quota of professional and independent business people, skilled and unskilled workers, and farmers. Each community has leaders of consumption who must be reached first in any sales program. Other families in the community follow these leaders and pursue the same economic aims, aspiring to own a home and an automobile, and to use the best in every product class. The main difference is that the quantities purchased are limited by purchasing power at lower income levels.

Instead of sharp class divisions, our population shows a continuous gradation from top to bottom in manner of living, so that it is normal procedure for

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anyone selling our market nationally to penetrate the market from the top down. Magazine circulation is ideally scaled to this normal marketing procedure.

American culture was not always so homogeneous. Magazines have helped to create homogeneity. They have been and continue to be the mirror of America, since they give our people a chance to express their interests and to become acquainted with prevailing interests.

MOBILITY OF THE PEOPLE

The third great factor is the tremendous mobility of our people. For much of Europe it is still true, as it once was here, that the great majority of people live and die within a few miles of their birthplace. Today in America there are few families which do not contain one or more members who have traveled or lived in states besides their own. The Census shows a very large percentage of persons living in states different from the state of birth. This phenomenon is by no means limited to states enjoying rapid population growth.

In selling America, you are selling a continent, you are selling people on the way up, you are selling a parade of like-minded generations, and you are selling a nation on wheels. National magazines are tailor-made to that selling job, which is one of the fundamental reasons why they have developed here in a way that is paralleled no other place on the globe.

FUNCTIONS OF MAGAZINES

Now let us turn to a consideration of the manner in which magazines function today, and the special characteristics which enable them to perform these functions. Magazines are unique as advertising media, because magazines make up an industry which is in the same business as the national advertiser. That is the business of manufacturing and selling merchandise on a national basis. We are producers of low cost goods. For this reason, magazines understand the problems of the present day and are meeting the demands put upon them.

Magazines are selected for survival by the ballots of Mr. and Mrs. America just as the automobiles, refrigerators and toiletries, which survive today in the national market, have been selected by such buying choices. Stated in another way, the sale of magazines gives the active market for nationally distributed products a chance to identify itself by the voluntary purchase of just such a product. That is why the circulation of national magazines is such a valuable index to the potential buying power of the general consumer market.

Magazine circulations respond to the changing market with remarkable flexibility because their adjustment can be made family by family. A family which has been buying a magazine occasionally on the newsstand can enter a subscription when its income increases. A family which moves to a new community may have to change its other media habits, but it can still obtain its favorite magazines. Individuals who improve their educational status or reach

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the age of adult interests will find magazines read by people like themselves which are already prepared to serve those interests.

The great increase in magazine circulations in recent years is closely paralleled by the rapid advance in education. Anyone who will glance at the figures showing the enormous increase in the number of students attending schools and colleges will find justification for the continued maintenance of high editorial standards for magazines.

During the same period, purchasing power has shown a generally upward trend. Real incomes and the resulting levels of consumption are higher today. Consumers themselves have voluntarily included more magazines than ever before in their expenditure pattern. This is the obvious moral to be drawn from increasing magazine circulations and progressive improvement in the quality of editorial content. Today more than ever before, magazines are providing the material which enables Americans to understand the complex and changing world they live in and to prepare themselves for the days ahead.

Another aspect of the flexibility of magazines as media is in the range of choice offered to the advertiser. From the list of magazines available, each advertiser can build his own instrument of sales coverage modeled directly to his needs. He can proportion his coverage by income and educational level, by men and women, or by urban and rural families. He can use small space or dominant space, black and white or color, one-syllabled words or the ultimate in elegance, and he can use any gradation in frequency of insertion.

Also unique from the advertiser's standpoint is the outstanding economy of magazines as media. In a period of rising sales costs, magazines provide a striking exception to the trend. Streamlining has been applied to meet the problems of the day. Possibilities for use of color and pictorial presentation have been greatly expanded. Shorter closing dates offer a better opportunity for coordination with merchandising. All of these improvements in the technical facilities offered by magazines and all of the great increases in magazine circulations during the past eight years have been achieved without corresponding rate increases.

LOCAL IMPACT

One of the aspects of national magazines which is important today as in the past is their local impact on people and merchandising. In its ultimate contact with the consumer, the magazine is as local as the car he drives to work. The magazine short story or homemaking article with which the housewife is entertained in her hours of leisure is local in its impression on her mind.

While a magazine is published on a national basis, its distribution is local—bought by people locally, distributed by local postmen, sold by local retailers and newsstands. Its sale locally is the result of local demands and local purchasing power. In this respect a magazine is no different from any other product of wide distribution. A cake of soap may be national when it leaves the

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plant in Cincinnati, Cambridge or Jersey City, but it is entirely local when the ultimate user washes his face with it in Ashtabula. National advertising is local advertising done in many places at once and correctly proportioned between all the places in the national market.

Magazines have helped to build America and, in turn, take their special character from the fact that they are themselves unique products of the American scene. When we say that magazine circulations fit the changing American market like a glove, we are not talking about ancient history. The greatest period of growth and improvement for magazines is right now and in the immediate past. With this review of what magazines have done and are now doing, let us consider how magazines are adapting themselves and helping advertisers make adjustments to the rapid changes which confront us.

The most serious development for advertising, as for industry as a whole, is our nationwide concern with an all-out preparation for defense. While adjustment to defense trends is the subject of much talk and speculation, we are barely beginning to grapple with the profound economic implications, both for the emergency period and the period after the emergency. Both short-range and long-range factors call for analysis, but most of the current discussion in marketing circles emphasizes short-range consideration.

IMPETUS OF DEFENSE SPENDING

The immediate concern of most market analysts in dealing with the defense program has been to determine whether the impetus of defense spending is changing the marketing map of the United States and, if so, to get the new map drawn up as quickly as possible. We have been asked many times to say to what extent magazine circulation is distributed properly, in view of the fact that billions of dollars in defense contracts were being poured into major production centers. There are two answers to this question.

The more fundamental answer is that first reactions have overexaggerated the *degree of concentration* of the stimulation resulting from defense production. Scores of maps and tables have been passed around which tend to show that the defense boom is going to a few major industrial centers. Such superficial analysis overlooks all of the raw materials and fabricated parts which must come from all parts of the country.

Actually a major stimulus applied to a great economic system stimulates the whole system and not merely the point of impact. It is a little bit like the shots in the arm which our draftees are being given as they enter training. The major result is to immunize the entire body rather than merely causing a temporary dislocation at the point where the needle is injected.

Put our national economy to work with a greatly increased schedule of automobile production, as we did in the twenties, and out comes greater prosperity for everyone from cotton farmers to chiropractors. Already there are evidences that the defense boom will follow the same pattern. World War I initiated a

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period of great farm prosperity. That this trend is about to be repeated may be indicated by the current prices. Prime hogs in Chicago recently went to $9.00 per hundred as against less than $5.00 a year ago, with obvious benefits to corn-belt farmers.

In addition to overlooking the simple economic truth that a major stimulus affects the entire system, some of those who have been trying to interpret the defense boom to business have apparently misunderstood the meaning of primary contracts. When the Ford Company went into defense production, the entire amount of the contracts involved was probably duly tabulated as a net gain for Detroit. Actually when Ford ordered a shutdown recently as a result of a strike threat, 25 huge plants were closed, reaching from Somerville, Mass., and Edgewater, N. J., to Long Beach and Richmond, Cal.; from Buffalo and St. Paul to Dallas and Atlanta. And hundreds of suppliers in all parts of the country felt this action.

A manufacturer in Boston who is executing a defense order of moderate size for a relatively simple item generously provided a list of all the suppliers of parts and materials involved in filling that contract. There were 49 suppliers, 37 of them located outside the city of Boston. Among the places, large and small, in which these firms are located are Detroit; Cincinnati; Union, N. J.; Wilmington, Del.; New Freedom and Pottstown, Pa.; and Valparaiso and Richmond, Ind. Obviously, since the parts had to be made first, defense wages arising from this contract were already going over grocery counters in Pottstown before the prime contractor in Boston was able to begin operations.

A prime contractor in Cleveland reported his suppliers for a single large order. One hundred suppliers will contribute to the completion of this order. They are located mainly in smaller places stretching from Elkhart, Ind., to Amesbury, Mass. Anyone here knows his industrial America pretty well if he can name the states in which all the other supplier towns for this one contractor are located. Of the total dollar expenditure for supplies on this order, 75 to 80 per cent will go to companies outside Cleveland.

Any earlier tendency to pile up defense orders in a few congested centers is being corrected. A few weeks ago, Mr. Knudsen, Director-General of OPM, made a public statement demanding greater diffusion of defense work. The latest statistical reports from his office show many smaller places receiving primary contracts, many of them for the first time. Pawtucket is making steel cable and Picayune, Miss., is making shirts. Lindenhurst, N. J., is making potato peelers and Wausau, Wis., is making raincoats. Grand Rapids is making bandsaws and Wheeling is making chinaware.

These are only a few of the hundreds of unlikely sounding products which are participating in the defense boom. They are mentioned here only as a reminder that modern defense production, American style, involves butter as well as guns and a tremendous range of products in between. Obviously the even-

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tual aim is to harness our entire productive capacity and to distribute the load evenly to that end.

LOCAL EFFECTS ON PURCHASING POWER

One of the most painstaking efforts to date to assay the local effects on purchasing power of the national defense program was that conducted by Dun & Bradstreet. The first thing which strikes the eye in this report is that it takes 10 pages in small type for what is stated to be a drastically abbreviated list of the communities directly affected by defense production or the expansion of army posts.

A map is shown indicating the allocation of primary defense contracts by six regions. The figures apply to contracts only up till the end of January. Only one region out of the six shows an allocation of less than one billion dollars out of a total of ten billion, and that is the South Central. Turning to the other map showing location of army posts, it becomes apparent that this South Central region is the very region which will profit most from this phase of the defense program.

The next lowest region in the size of the defense allocation, relative to retail sales before the defense program started, is the North Central. But the January figures which are shown separately indicate that this region gained much more than the eastern regions, bringing it up to the two billion mark. This region also will receive a large share of new construction of defense plants, placed there for strategic reasons. Thus it appears that even at the superficial level of primary contracts, the case for extreme concentration will not stand up.

Another recent statistical analysis made by the National Industrial Conference Board shows even more conclusively that the ultimate effect of the defense program may be to augment normal sources of income in about the same proportion. The analysis shows for the nine Census regions a comparison of population, 1940 income, value added by manufacture and defense contracts up to the end of January, 1941. First in defense contracts is the Middle Atlantic region with 31.4 per cent. This region, however, is also credited with 27.5 per cent of national income and 29.8 per cent of value added by manufacture. The regions rank in much the same way for defense contracts and income.

A recent editorial in *Business Week* calls attention to the futility of current efforts to measure income changes by means of an analysis of defense contracts. It is pointed out that the dollar value of a contract offers little real information as to the time or place in which the money will be spent. An impressive total figure determined on a given date may be spread over two or three years as well as being spread over the 48 states.

Perhaps the most concise and impressive statement of these facts which has yet appeared is in a recent advertisement by General Motors Corporation. This statement is so important that I am going to quote it in full.

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TO NEGLECT DEFENSE IS TO INVITE DISASTER

ALL AMERICAN TASK

Right in the forefront of the vast defense task that faces the country is the vital need to bring the greatest effort of the greatest number swiftly to bear on the problems at hand.

That this is already happening is clear from a glance into the more than 35 General Motors plants where defense production is the Number One job.

Here you see mobilized the effort not merely of a single organization but of literally hundreds of businesses, large and small, teaming up smoothly together to provide the speed the program needs.

In the defense production of one GM division, 50 outside machine shops are sharing in the work.

In another, parts are secured from 83 outside suppliers, while raw materials come from 37 other sources.

In still a third case, more than half of the dollar volume represented by existing defense contracts will go to other companies for supplies—companies scattered over seven Middle West states.

Even the GM-developed Allison aircraft engine is built of materials, parts and sub-assemblies drawn from suppliers in 65 communities scattered from Clarinda, Iowa in the West to Hartford, Connecticut in the East. This procedure is not strange to anyone familiar with the normal workings of American industry.

It is this breaking up of big jobs into little ones, the spreading of mighty tasks over many shoulders, that is the secret of American efficiency and industrial might. Certainly the great task of preparing for national defense is not a task delegated merely to a few or undertaken only by a handful. It is a task in which the whole country is already taking part, and one in which the whole country will participate—in steadily enlarging measure.

ADJUSTMENT OF MAGAZINE CIRCULATION

The second answer to the question about magazine circulation in relation to re-distribution of purchasing power, is that insofar as such re-distribution is actually occurring, magazine coverage is immediately readjusted to meet it. Actually there is nothing new here since such automatic adjustment has always been a normal part of magazine operation. Newsstand sales consistently reveal the fact that magazine circulation follows readers South for the Winter or North for summer vacations—or from section to section as their place of employment changes.

Today responding to the conditions under the defense program, magazine circulations are showing remarkable increases. The picture is clearly shown in towns like Burbank and Glendale, Cal., centers of aviation production, and Homestead, a steel town outside Pittsburgh. In these towns a leading magazine has shown percentages of increase in newsstand circulation of 30 per cent, 34 per cent and 51 per cent over a six-months' period.

Magazines as much as any other media can adjust smoothly and rapidly to the changes in location which are actually taking place. Boomtown is a national phenomenon this time as it always is in major upswings. Attempts to follow the change of address of every person who eats soup or sirloin is certain to end in futility. Before the market analyst can possibly get figures on the shifts that mean anything, the situation will have reached a point of stability and magazine circulations will be completely readjusted to the new picture. Magazines will continue, as in the past, to locate customers by providing the editorial

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content they want and will continue to keep in touch with them as they move about, just as surely as their favorite brand of cigarettes will continue to reach them.

As more families acquire purchasing power in any locality, magazine circulations are increasing with the new purchasing power. Increases in circulation at the present time are based on that fact and result in a deeper penetration of magazines into the economic groups.

LONG-RANGE POSSIBILITIES

Let us now review briefly some of the long-range possibilities of the defense program which will have far deeper implications for advertising than any geographical re-distribution of purchasing power which is in prospect.

It seems almost as if we had chosen to immerse ourselves in these short-term aspects of the situation just because we scarcely dared to confront the more far-reaching adjustments which might be forced upon us. It is a hazardous and unpleasant task to re-think sales and advertising policies while we are still in the midst of the changes which necessitate revisions in policy. Like it or not, we are going to be obliged to do just that, since the course of events is not going to pause and wait for us to catch up.

It is in the solution of some of these fundamental problems that magazines are making their values apparent in a major way. Real solutions are sure to involve some of the foresight and long-range planning which have gone into successful magazine advertising in the past. The approach to consumers in seeking these solutions will have to reach deep into the public consciousness of enduring values and intelligent concern for the future of America. We will have to contribute every ounce of economic leadership we can summon to meet this crisis and make sure that our case is clear with those leaders of consumption who, in the long run, determine the stability of markets. Magazines are equipped by past performance and present facilities to help do this job.

To bring the discussion down to cases, here are some of the questions which advertisers might well be asking themselves today:

Should I slack off on the use of premiums and deals and move in the direction of more basic sales cultivation?

Despite the delay in current deliveries to my regular customers, is there anything I should be telling them now to guard future prospects?

Will permanent changes in demand result from temporary consumer acceptance of substitute materials and products which are entering my field as a result of the defense program?

Am I using advertising as fully as I should to replace more expensive forms of selling at a time when manpower is at a premium?

Have I an opportunity to help reduce costs of distribution by bringing out larger units of my product and inducing consumers through advertising to increase their average purchase?

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Should I be using advertising to get consumers to accept temporary cessation of style changes in my product because of current difficulties in re-tooling?

Can I, by bringing out a simplified product at a lower price or by other aggressive sales plans, help to stave off inflation by providing the goods which can absorb increased consumer income?

Magazines can assist the advertiser in holding and strengthening his normal consumer market—which represents the real foundation of his business. Magazines can inform the public that the company is doing a capacity business and playing a leading part in its field. Through magazines companies can place themselves on record against sudden and unnecessary price changes, or explain such changes should they become necessary. Magazines can assist in retaining good will by showing either industrial or family consumers how to make the most of the limited supplies available. Magazines, by continuing to hold the mirror to America, can help to bring consumers to make adjustments in patterns of living without harboring resentment against companies and products which served them well in the past.

These are some of the real fundamentals in the current advertising situation. Any manufacturer who makes a conscientious attack on any of these problems will surely wish to consider the unique advantages and capacities of magazines as advertising media. Having helped to create this manner of life which we call "the American way" we in the magazine field are anxious to play our part in protecting it.

To do this we must get back to fundamentals with ourselves and with our customers. Consumers for a long time to come will be in no mood to consider superficial appeals. With nothing less at stake than the security of American life and the future happiness of the oncoming generation, the demand for lasting values cannot be denied. Somehow we must mobilize all elements of stability and foresight to build for permanence in the midst of the emergency.

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WHAT TO SAY IN YOUR BUSINESS PAPER ADVERTISING TODAY . . . AND WHY

By ALFRED M. STAEHLE
Vice President, McGraw-Hill Publishing Company
Publisher, *Factory Management and Maintenance*

THE fast-developing industrial changes of today have more than doubled the tasks of management. New, seemingly unprecedented problems confront us on every hand. The old problems restlessly take new forms. And since business history never quite repeats itself, the conscientious business man dares not lean too heavily on experience alone.

Fundamental truths, however, do not change. Only their applications change. In giving counsel to a young man today, for example, you would still extol hard work, diligence, and the acquisition of knowledge—just as your grandfather might have done. But your advice on a specific course of action might differ greatly from that which would have been applicable a generation ago.

I have been asked to discuss what business paper advertising can do today to help management meet the problem of selling to business and industry in whatever new form that all-important problem may take. I shall try to delineate some of the fundamentals of industrial advertising and their specific application to current conditions.

Let us see first if we can agree as to just where we stand today.

Business has passed through many years which, in sales, yielded an unsatisfactory volume. At any rate, most sales managers felt there wasn't enough business to go around. Then, about a year ago, defense demands loomed high. Volume-hungry sales managers chafed at the bit, like high-strung race-horses, in their eagerness to get advertising programs under way and capture the anticipated business. By and large, the hoped-for volume materialized. In some instances it exceeded expectations. At all events, the advertiser's course was clear: the objective was to get the business while the business was good.

THE AUTHOR Alfred M. Staehle has been identified with industrial advertising and publishing for 24 years, first, as editor of a business paper in the steel industry; then as advertising manager of the Industrial Division of Westinghouse. Since 1926, Mr. Staehle has been with McGraw-Hill in various capacities, among them, sales manager of their mining and construction papers. A Vice President of McGraw-Hill Publishing Company, for the past eight years he has been publisher of *Factory Management and Maintenance.*

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DIFFERENCES ACTUAL—MANY SIMILARITIES IMAGINARY

Up to this point it is easy to generalize. Now, however, generalization fails us. For today all businesses are not at the same point nor in the same position. There are actual differences—and there are imaginary similarities.

Certainly a business operating under priorities faces some decidedly special problems. Likewise, a plant producing for a single customer, the Government, is in a position different from that of a subcontractor supplying a relatively few prime defense contractors or one that retains a large spread of orders from normal customers.

Too, some plants are busy because they manufacture a product of recognized superiority, while others are busy simply because their better-recognized competitors cannot make deliveries. For whatever reason, many companies share a common condition—their production is booked for weeks or months ahead. Thus many may imagine that they are all in the same boat, the boat flying the false banner, "Oversold," whereas their sales and advertising problems are actually vastly different. I shall tell you presently why I believe this banner is a false one.

For that matter, not all businesses are loaded with advance orders. There are "dark horses," newcomers, and others who, for some reason, have not yet hit their stride. This is just one of the factors that make it dangerous, nay impossible, to generalize on the sales and advertising considerations confronting all businesses today.

You will readily forgive me, therefore, for not attempting to prescribe a precise program by which each of you can utilize his business paper advertising to its greatest possible effect. There is a "next best thing" that I can do, however. That is to summarize for you the collective opinions, policies, and decisions already arrived at and currently in effect throughout the industrial advertising field.

Thanks to a study made with the assistance of my staff, I am able today to present to you a detailed, up-to-date review of copy trends in business paper advertising. Let us then examine the applications of advertising fundamentals that are being made specifically by companies to meet every sort of changed condition and new problem that arises today.

HUNDREDS OF ADVERTISEMENTS STUDIED: A FUNDAMENTAL REAFFIRMED

To make this review possible, we have analyzed hundreds of advertisements appearing in magazines which constitute a true cross-section of the business press. The advertisements selected for study were chosen from a range of 5,000 specimens appearing in magazines issued during the first quarter of this year.

In our study we were not concerned with advertising techniques but with motives, objectives, and *basic appeals*. We felt that if we could classify basic appeals, we could indicate to you not only what business paper advertising *is doing*, but, in effect, what it *should be doing right now* for you.

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The first conclusion drawn from this study completely reaffirms a key fundamental of business paper publishing: *industrial advertising, if it is to serve the seller, must first serve the buyer by giving him information calculated to solve his business problems.* Nearly all the advertisements we studied revealed a recognition of this fact.

Frankly I should have been disappointed had we discovered any trend to depart from such a basic first principle. And I might warn you, parenthetically, that you will not be startled by "unexpected revelations" as the story of this study unfolds. On the contrary, I trust that the value of the study may lie in the fact that it provides perspective without unduly highlighting sensational phases that are really of relatively minor import.

Now as we analyze these hundreds of advertisements, what, do we find, are the basic appeals? We shall not attempt to classify them in the order of their importance. But there is one outstanding theme that transcends the others. This, as you might have supposed, is: "How to increase production."

As recently as a year ago, I believe, this appeal might not even have appeared in any list of industrial advertising themes most widely employed. Today it has unquestionably moved into first place ahead of the more familiar, long-time favorite, "How to cut costs."

WHY THE INCREASED-PRODUCTION THEME NOW LEADS THE FIELD

How shall we explain this change? Well, "how-to-increase-production" reflects, of course, industry's reaction to the gigantic new job ahead of it. I wonder whether many of us fully realize, as yet, the magnitude of this. A few years ago, a single billion dollars was considered a potent factor in pump-priming. A year ago we spoke with awe of $5,000,000,000, $6,000,000,000—possibly $9,000,000,000—appropriated for defense. Today, as of April 1, 1941, our total defense commitments including the Lend-Lease Bill amount to $39,000,000,000—and this may be only the beginning. Other estimates of potential defense costs run as high as $58,000,000,000.

The plain fact is that our "arsenal of democracy" faces a hurry-up production assignment the like of which has never been undertaken by any industrial nation on earth. If we succeed in producing war matériel at the rate of $15,000,000,000 a year, we shall be imposing on our industrial facilities a production load nearly four times the total output of the automotive industry!

And this job comes upon us at a time when, unfortunately, our industrial efficiency, as measured by equipment obsolescence and available trained personnel, is at a very low ebb. For example, before the defense program began, 70 per cent of our machine tools were over 10 years old—the highest degree of machine-tool obsolescence in our history.

No wonder, then, that advertisers of every kind of equipment and service are telling industry how their products can help to boost production! More important still, hundreds of advertisers are showing amazing resourcefulness in

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putting across stories of the way in which production can be increased *with present major equipment* by use of auxiliary devices.

I would not have you suppose, however, that "how-to-increase-production" is the *only* basic appeal now being used effectively by advertisers. On the contrary, our study shows that this is merely the leader among a group of themes employed to meet some 12 of the different types of major problems confronting industry today.

May I now invite your later attention to the more detailed analysis of these problems appended to this paper? This analysis is based on a chart (enclosed with this booklet) which we have prepared for the convenience of those who wish to make a thorough study of the data we compiled. I believe it will repay thorough study, for it portrays the policies of businesses of every sort, large and small, in meeting every one of the manifold conditions that today's new developments have brought forth. Mind you, there is nothing theoretical about this analysis—it is a factual report on advertising decisions that have actually been made.

HOW ADVERTISERS ARE MEETING INDUSTRY'S NEW NEEDS

Here I shall content myself with briefer references to each of the 12 major problems. We have made no attempt to classify them in the order of their importance, however. The fact that the "how-to-increase-production" theme stands out signally among them is, I believe, about all we need to know about that.

Besides the need for increased production, then, we find these following problems—many of them the direct results of the defense situation—to which industrial advertisers, the purveyors of industrial information, are supplying the solutions through the business press:

the need for increasing plant capacity, a point to which the appeals of a very wide variety of product advertising must be addressed

the need for conserving manpower, a problem of growing importance, the significance of which is not yet fully realized

the need for more power, doubly significant in view of the limit which time puts on our ability to increase power production

the need for improved product quality, a theme being employed more widely than we might suppose

the need for quick deliveries, the response to which is obviously ready-made, especially in certain industries

the need for materials, also important because of speedily developing change-overs necessitated by defense

the need for increasing profits, still a "must" for advertisers of cost-cutting goods and services and still sure of a hearty reception

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the need for improved safety, health, and employee relations, which is more, not less, in the limelight as production curves rise

the need for improved dealer relations, well-recognized by many far-sighted advertisers as a timely necessity

the need for preparing for future operations, wherein we find many thoughtful advertisers interpreting their products in terms of future as well as present usefulness

the need for improved business and public relations, which, I think, represents an obligation on all industry and all industrial advertisers today more than ever before despite the fact that we may think industry is temporarily "out of the doghouse."

And may I suggest again that you study the more detailed review of these points appended to this paper? For it discloses many sound, factual advertising motives which it may be important for you to consider in connection with your own approach to industrial advertising.

SOME OTHER OBSERVATIONS FROM THE STUDY

Over-all we find, as we examine these data, the basis for some interesting and worthwhile general conclusions:

There is a decided trend, for example, toward more informative copy. The Associated Business Papers' "Tell All" campaign is doing a fine job of bringing home to advertisers this key fundamental of good advertising.

There is a most fortunate absence, considering the times, of eagle-screaming, flag waving, and other pseudo-patriotic motifs. Business has real problems to face—tough ones. Business men expect help from the advertising pages of their business papers. Protestations of patriotism, though interesting, are not generally helpful. The most helpful copy is the copy which gives practical, usable information.

There is a place for advertising which frankly states what the company is doing for defense—and there is a place for that kind of copy in the business papers. But our study indicates that such advertising is generally being considered as a separate campaign embarked upon for very specific reasons and *not used as a substitute for product advertising.*

There is a definite trend toward a greater use of pictorial and graphical methods to dramatize sales points. There appears a very strong trend to extend the use of case examples as proof of benefits offered.

I wish again to emphasize that the value of this study lies largely in the perspective it provides. It reports on the sales and advertising policies of American business *today* and thus brings into sharper focus the problems of American business and industry upon which sound advertising appeals can logically be based.

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A WARNING AGAINST "TRICK" COPY APPEALS

Boiled down to a simple fundamental—we find that advertisers are getting attention by telling what the prospect wants to know. So, if we clearly understand the prospect's problems, we automatically find the sales and advertising appeals which make our advertising most effective.

There is a very great danger that, just because our plants are filled to capacity, we may be drawn off base into the use of "trick" copy appeals. It is quite natural that as conditions change, we should seek to conform to them. But, it is fallacy to suppose that new conditions have altered fundamentals. They merely change their application.

You expect to be in business for a long time. You must sell those benefits which your services and products can deliver—at any time. That is fundamental. The change in the application of the fundamental is simply to adapt your appeals to present-day needs. And that is the one rock-bottom fact which, in my opinion, this study has proved. Regardless of whether or not you are temporarily "oversold," the only consideration which will keep you in business over a period of time is to have sufficient customers and prospects who thoroughly understand the benefits they may receive from your products. Don't forget as you study the examples of copy appeals currently being used by industrial advertisers (as shown on the chart) that there are among them a great many whose plants are today filled to capacity.

WHAT ABOUT THE "OVERSOLD" PROBLEM?

Now I should like to discuss one question which it is essential to review in any sound approach to the larger problems of advertising. Naturally some executives will ask: "What can we say in our advertising when we are oversold?" To this we readily find the answer in our study of current industrial advertising themes.

But occasionally we are asked also: "Why advertize at all when we are oversold?", and I think it is vitally necessary to look searchingly and frankly at the problem this raises.

First, let me report that business has shown practically no disposition to rest on its advertising oars. In my own publication, we carry the advertising of over 400 companies representing every size of business in America. I would be hard pressed to give you the names of a dozen companies that have reduced their advertising because of being "oversold." I can think of *none* that has stopped advertising for that reason.

Moreover, *I doubt that there is a business in America that is actually oversold.* I know that sounds unbelievable. But this is what I mean: It is perfectly possible for a business to be oversold beyond the means to deliver. Many businesses are in that position today. The machine-tool industry is one—and incidentally that industry is doing a sounder job of advertising today than ever before.

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Yes, it is possible to be oversold beyond the means of delivery. *But, is it possible to be oversold in the sense that too many of your prospects and customers fully understand the benefits to them of your products or services?* Your plant may not be able to meet the current temporary demand. But I submit that that does not constitute evidence, even presumptive evidence, that your selling job is done. You and I both know of countless cases where an order has been placed with a producer *solely* because he could meet deliveries better than his competitor. Such business is not "oversold"—it is not even *sold.*

That is why, in the beginning of this paper, I referred to the false banner, "Oversold." We deceive no one but ourselves if we believe that we have "sold" so thoroughly that all our customers and all our prospective customers—now and in the future—really understand all the benefits that our goods or services can bring them.

Moreover, I submit to you that, if you are "oversold," from a delivery point of view, your salesmen probably are doing a poorer job of basic selling than they have done in years. They have no prime incentive for basic selling. They are busy? Yes. They are doing a good job? Of course. They are doing a service job, smoothing over difficulties, explaining non-deliveries—but they are doing less and less actual selling in the elementary sense of that word.

Your best chance to keep up that hard-hitting selling job upon which your future business may depend is to use your advertising now to sell the merits of your products harder than ever. Your advertising manager can better control your selling effort than your sales manager. His salesman—the advertising pages—need not be sidetracked; they need not take time to listen to complaints; his salesmen—his advertising—have no ears to hear them. His salesmen have only tongues with which to sell.

I further ask this question: Have you ever heard an executive say, "I am not interested in making any more money because as a matter of fact we have an ample cash surplus"? Of course, you have not. It would be just as reasonable to argue that there is no need to keep on selling just because at the moment you have a temporary surplus of orders.

NOW IS THE TIME TO PUT YOUR HOUSE IN ORDER

Further, I hazard the prediction that when our armed forces and defense workers have done their job you will then hear some executives say, as they did 10 years ago: "Now is the time to put our house in order."

I submit to you that *now* is that time—not in the future.

Now is the time when you can acquire the most important surplus which any business can have—a surplus of well-sold customers and prospects, a surplus of good will, a surplus which you can cash in just as readily as any cash surplus. A surplus which you can cash in—without depleting the cash surplus you hope then to have. I believe that this viewpoint is an accurate appraisal

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of the viewpoint of most executives, yes, the great majority of alert executives today.

THE BUSINESS PAPER—WHAT IT IS, WHAT IT DOES

Throughout this discussion, I have assumed that all of us are agreed on one fundamental—the role that business paper advertising plays in the big job of selling to industry and the field that the business paper covers. But it occurs to me that, in the light of today's swift-changing events, it may be well for me to define anew the business paper's function and field.

In time of peace, the business paper serves as industry's clearinghouse for the exchange of productive information, as industry's market place for the exchange of efficient equipment, materials, and services.

In time of war or emergency, the business paper's function is enlarged by the demands of defense production. To the ever-important need for the exchange of goods and ideas is added the new need for more and more production, greater and greater efficiency, and, above all, for speed.

Then the business paper becomes, in fact, a vital line of communication on the industrial front.

The business paper's field is always the whole wide world of industry. It embraces the manufacturers of peace-time goods and of defense goods, the producers of raw materials from which these goods are made, and the distributors and dealers through whom these goods are sold. In this field we find: the men who manufacture 100 per cent of all the goods made in America; those who, in their business, sell the great majority of all the goods manufactured; and in addition those who in peace time purchase for their business 62 per cent of the goods manufactured in America!

Is it possible to overemphasize to advertisers the importance of making the wisest and most productive use of the publications serving such a field as this? I doubt it, and I trust that this paper may be of some aid to you in determining what that use shall be.

CONCLUSION

To those of you concerned in basic planning of business paper advertising I should like to summarize the salient facts of the study we have just reported —and what it indicates to you:

1. Under *any* conditions—whether it be those we encounter today or at any time—business paper advertising is purely and simply a means of communication. It is an accepted, tried and tested means of communication utilized by businesses that have goods to sell to communicate vital information to businesses that use these goods.

2. Under any conditions—but, most particularly, under conditions of rapid business change—it may be assumed safely that there is a great deal of vital information which the sellers of goods must communicate to the buyers of

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goods. The question you must answer for yourself is: "To what *specific buyers* shall we now communicate information through our advertising pages?"

3. Sound advertising in business papers at any time must serve the buyer, if it is to serve the seller. Business men read business papers to procure information helpful to them in their business. They expect to find information in the advertising pages. The next question you must ask yourself, therefore, is: "What *specific* information about our business should we now communicate to our prospects and customers?"

Please note that we emphasize the word *specific*. Because therein lies the great value of business paper advertising. It enables buyers to procure from their business papers information on their specific problems. It enables sellers to communicate specific information on specific products or subjects to buyers. No other type of media so effectively and economically offers this distinctive advantage.

I believe it may be categorically stated that never before in the history of American business have advertisers so soundly used business paper advertising. The study we have just presented substantially proves that point. Remember these two questions—and I repeat them:

> To what *specific buyers* shall we now communicate this information through our advertising pages?
>
> What *specific information* about our business should we now communicate to our prospects and customers?

Upon how soundly you answer these two questions may well depend not alone the future of your business but even the very existence of your business. Today, we have time to prepare for tomorrow. Tomorrow it may be too late to prepare.

I should like to add one final thought. You will recall that in an earlier part of this paper we referred to our defense program as being equivalent to an industry four times the size of the automobile industry. But let us not forget that this huge "new industry"—the defense industry—has no permanence, produces nothing of permanent value, and insures no permanent employment. It is a long-term liability. It will perish.

When the day comes—as it will—there will be only one hope for America. That hope is that industry then will be able to produce such a volume of peace-time goods at a cost so low that our people may be able to buy them in sufficient quantities to keep the men in our factories employed.

Therefore, the manufacturer who now vigorously promotes equipment which will render industry more efficient is not only assuring his own future, but in addition is performing a high patriotic duty.

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APPENDIX

The 12 Most Important 1941 Sales Appeals

In order that the findings of our study might be available in some readily usable form, they have been graphically arranged on a separate chart, entitled, "The 12 Most Important 1941 Sales Appeals." This chart shows:

1. The most pressing problems in industry and business today.
2. How business paper advertising is helping to meet these problems. In column form under each major problem may be found headline and text quotations abstracted from those advertisements which best typified the 1941 appeals most frequently used.
3. Why these problems are important—their future—and what they mean to advertisers.

A study of this chart may suggest many ways in which you may effectively utilize business paper advertising under present conditions. Certainly this chart serves to reflect the sales and advertising policies of American business today—and it shows further how effectively business paper advertising is being geared to today's business problems.

Because this chart rather completely covers the main objective of this paper—to show how business paper advertising is being used, we shall not duplicate the many actual examples of copy appeals which are shown on the chart. We shall be content in this portion of the paper merely to list the most pressing problems in business and industry today upon which the 12 most important 1941 sales appeals are based.

The Need For Increased Production: Although this has already been partially covered in the preceding text, I should like to emphasize that an examination of the copy used by advertisers in capitalizing this appeal shows a great diversity of products which lend themselves to the use of this appeal. It is obvious, of course, that the advertising of production machinery can readily use this appeal. Less obvious but equally as important is the fact that the manufacturers of a wide variety of equipment and services other than production machinery find that there are inherent characteristics in their products which can be featured in terms of the assistance they can provide to solving the need for increased production.

The Need For Increasing Plant Capacity: It is of course apparent that this appeal applies to a great many products. Manufacturers of structural material, plant construction services, and standardized buildings, for example, naturally are interpreting their services in terms of speed. There are, however, a great variety of industrial products which enable industry to actually increase plant space without necessitating new buildings. You will note from a study of the chart how advertisers of such products are capitalizing this appeal.

The Need For Conserving Manpower: Few of us yet fully realize the tremendous urgency of this need. Fifteen billion additional man-hours of work will be required for the defense program alone this year if we are to produce the 15 billion dollars worth of defense material it is hoped we can turn out. This is more man-hours than the entire manufacturing industries required in 1939. A great many manufacturers of widely diversified equipment have found sensible and logical means of interpreting the advantages of their products in terms of the conservation of manpower. Increasing the productivity of American workers takes on a new meaning—not merely one of profit, but of national preservation both for defense needs now and for peace needs in the future.

The Need For More Power: The important significance of the need for more power lies in the fact that our Navy program will require such an enormous drain on the manu-

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facturing facilities for producing generating equipment that it will not be easy at the same time to increase the capacity of private or utility generating stations. To appreciate the tremendous Navy power requirements, we must understand its extent in terms of the power requirements of a typical industrial community. The Navy program, at the present time, calls for the construction of 17 battleships, 8 aircraft carriers, 54 cruisers, and 204 destroyers. A conservative estimate of the generating capacity required to operate these ships is 20 million horsepower. That is equivalent to the power required to operate the factories and light the homes and streets of 100 cities the size of Dayton, Ohio. Since there are very few manufacturers in the country who can build prime generating equipment and in view of the tremendously increased industrial capacity which will be required by our defense program, it can readily be seen that every possible effort will be made by industry to conserve power. It is estimated that 50 per cent of all power produced is wasted between fuel consumption and final utilization. This is a situation which again brings manufacturers of a wide variety of equipment to interpret the benefits of their equipment in terms of power saving.

That this appeal is being fully capitalized by manufacturers of all sorts of power equipment is, of course, apparent. It is of special interest that manufacturers of other types of equipment—production machinery, for example—also emphasize power savings.

The Need For Improved Product Quality: There are two very powerful incentives for improving product quality: (1) Increased salability to capture growing markets; (2) reduction of rejects or spoilage, thus increasing production. A great variety of industrial products and services lend themselves to filling this need. If, at first thought, this appeal does not seem to lend itself to your product, we suggest you study how many advertisers are expressing benefits of their products in terms of this need.

The Need For Quick Deliveries: The need is self-evident. Many negotiations now commence with the question: "When can you deliver?" Quite logically, therefore, alert manufacturers, in their promotion, either frankly state their current inability to deliver—thus saving their own time as well as enhancing good will with customers through such forthrightness—or, if they can provide prompt delivery, they use this fact aggressively as a major sales appeal in their business paper advertising.

The Need For Materials: These two points are clear: (1) In the near future, many products will be made of entirely different materials than today; (2) after the defense effort, there will be a tremendous surplus capacity of many materials. In some cases, triple present capacity. The job for the "Substitutes" is not merely to get the business now, but to really sell it—to make it stick. The job for everybody, later, will be to hold or regain markets. For any material manufacturer, any letdown in promotional effort now will be suicidal.

The Need For Increasing Profits: Emphasis is now heavily on increasing production. The low-cost motive in purchasing is somewhat submerged. But don't let this fool you. The manufacturer of tomorrow who will make a profit will do so only because of low-cost production. If you have a product which will lower costs—tell them, sell them, keep them sold—everlastingly—regardless of what other temporary additional sales points you may want to stress.

The Need For Safety, Health, Employee Relations: It is estimated that by June of this year all industries will have employed 4,000,000 new workers! Men working at jobs with which they are largely unfamiliar—and for strange employers for whom there will be no loyalty due to years of service—and at a time of terrific industrial speed-up. These facts are fairly well appreciated by employers. What a time to sell them equipment, mate-

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rials, supplies, and services which contribute to the health, safety and good will of their employees! This appeal need not only apply to manufacturers of safety and health promoting equipment. It can be and is being applied as a powerful appeal to a wide variety of miscellaneous equipment.

The Need For Improved Dealer Relations: Biggest share of increased retail sales from the 90 billion national income predicted for 1941 will come from the lower income groups now moving into the $2,000 and $3,000 income groups—largely new customers for the dealer. Product quality alone, without sound dealer relations, well-educated and well-supported dealers, will not be enough. Don't forget in a rising market, fly-by-nights can advertise intermittently too. Regular month-in-and-month-out advertising, both for and to the distributor and dealer, beats spasmodic effort any time—especially in 1941.

There has been less change in the basic appeals of advertising directed to dealers and distributors than in advertising directed to industry. This is probably true because the impact of our defense economy naturally affected industry first. Advertisers who sell through distributors and dealers are using sound appeals of showing dealers how they can help move their goods off the shelf. They are giving them full information on the advantages of new features built in their product. In some instances, advertising is beginning to capitalize the effects of priorities as, for example, one manufacturer, forced to make a part of his machine of a new material, is being very sure that the dealer understands the full advantages of that material.

It is interesting in studying the advertising appeals of manufacturers, who sell through distributors and dealers, to note that a careful study of 360 advertisers who spent over $100,000 a year in advertising, as listed in a recent issue of *Printers' Ink*, revealed that well over 90 per cent of all manufacturers of consumer goods who sell through dealers and distributors also used business papers in order to tell their story directly to distributors. As would be expected, the copy in dealer papers is invariably a different kind of copy than appears for these same products in consumer publications. The reason, of course, is obvious. The job of the consumer copy is to tell the ultimate consumer the benefits he will derive from *buying* the product. The job of the dealer copy is to tell the dealer the benefits he will derive from *selling* the product. Obviously, the copy appeals are entirely different.

The Need For Preparing For Future Operations: When the men in the armed services, and the men in defense factories, have done their job, regardless of any ensuing foreign economic wars, our own economic war will just commence. Then America, and your business, can only be strong if we can produce at lower costs than ever before in our history. If there is a higher patriotic duty than meeting our present emergency, it is to prepare vigorously to meet the future emergency—by selling and selling efficiency and low-cost operation now.

It is perhaps unique in the annals of American business that at a time of intense industrial and business activity, so much attention is being given in advertising to solving the problems of the future. Many advertisers are now interpreting their products in terms of their value under future conditions. This appeal is being especially used by the manufacturers of production equipment, although many others are finding a suitable application of this appeal.

I should like to cite an example of the importance of creating markets now for future sales.

The sales manager of one of the largest and most progressive machine-tool companies has been assigned the job of figuring out how his company can avoid sliding into a catastrophe when the defense program is over. Prior to 1940, the production of 100 machines a month was considered to be excellent business. As of March, 1941, they are

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producing 650 machine tools a month. By September, 1941, they expect to produce 800 machine tools a month. So the job this sales manager has is to figure out how to avoid dropping back to the sale of 50 machines a year—their 1932 sales performance.

He is confident that this is a perfectly reasonable expectation, provided he can lick one basic sales obstacle during the next year or two. The main obstacle with which he is confronted is what he calls the "auditor's viewpoint" in business. That viewpoint for years has been to assume that if a machine cannot pay for itself in 3½ years in terms of labor saving alone, it is not worth installing. He realizes that this viewpoint, prevalent in many businesses, will certainly defeat the modernization program which industry must adopt if it is going to manufacture goods in the future at a low enough cost to stay in business. The question is not whether the machine can pay for itself in 3½ years out of labor savings alone but whether that machine will keep the company in any kind of competitive position so that they may be able to operate economically at all.

This company's advertising is now being geared to bringing about that changed point of view which will be so vital to the future success of their business. There you have a real job for advertising today. In some form, this same principle applies to hundreds of businesses throughout the country.

The Need For Improved Business and Public Relations: Business and industry would probably still be in the doghouse but for the defense demands upon our factories. Regardless of heroic and patriotic services rendered during the emergency, the respite may only be temporary. There is, of course, a public relations job to do. But don't overlook this fact. *Of all the public who should really understand you and your business, your customers and your prospects are the most important.* A review of the advertising currently being carried in business papers reveals many examples of companies which are using this appeal most effectively. For example: To clarify difficulties brought about through priorities; to aid an entire industry to be better understood; to help spread better education to the employers and workers concerning the economic importance of the machine; to explain the part their companies are playing in the defense program.

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FINDING AND REACHING YOUR MARKET THROUGH NEWSPAPERS

By FREDERICK DICKINSON
Western Manager, Bureau of Advertising
American Newspaper Publishers Association

DESIRE for news is a natural human heritage; and it flourishes like the green bay tree wherever it has not been held in check by force, or undernourished to the point of starvation. It is particularly a heritage of democracies—and a most particular heritage of this country, where a natural desire to know what is going on is augmented by a highly developed bump of curiosity.

This has always been true, but it is more apparent today. As the world has grown smaller, the individual's world has grown larger. Not only is he intimately affected by events in far-away places, but his increased knowledge of those places has increased his natural curiosity. Every turn of the clock proves that news is more vital today than ever before.

Furthermore, the news of the day affects everyone. The time is past when any class or group or individual can say, "That's too far off (geographically, economically, socially) to bother *me.*" Small town, big city, wage earner, farmer—wherever folks live and whatever they do, all of them must have the news of the day. It is literally true that one of the things that all people have in common is hunger for the news. Everyone, everywhere, seeks an answer to the question, "What's happened today?"

But don't picture the millions who make up our vast population as constantly going about with wrinkled brows, anxiously scanning big headlines and reading long columns of small print about happenings in Europe and Asia, and other far-off and troubled lands. It might be better for us, and for the world, if this were true. But, sad to relate (or is it?), much of this curiosity, this desire to know what is going on, has for its object events that are by no means world-shaking in importance.

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Mr. Dickinson's earlier years were spent in the newspaper field. He was associated with the Chicago *Record-Herald*, Chicago *Evening Post* and other members of the old Shaffer group. For a number of years he was active in the Association of National Advertisers and in the Audit Bureau of Circulation.

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Of course, folks want to know what's happening in countries across the seas (that can be proved in scores of startling ways); but more than that—much more—they want to know what's happening close to home—next door—to their relatives and friends, and particularly, to their neighbors. The events that interest most people, and interest them most, would hardly rate a stickful of type, much less a headline, 25 miles away from where they occurred.

STUDY OF NEWSPAPER READING

The Continuing Study of Newspaper Reading, an undertaking to which I shall refer occasionally, proves beyond a doubt that, even in these times of great national stress and international distress, people still give preferred attention to the home-town and human-interest items that fill a large proportion of our newspaper pages. (That, may I say parenthetically, is why those home-town and human-interest items fill those pages. No one knows better than a newspaper editor what people want; because he has to capture and recapture the interest of his readers every day.)

Of the 150 news stories that got the heaviest reading from both men and women in the first 15 studies, 62 per cent were definitely local from the standpoint of women readership, and 46 per cent were local from the standpoint of men readership. Later studies have not changed that ratio.

When we say "news," most of us are prone to think first of wars, catastrophes, politics, business, discoveries, inventions, and the trivia of daily life. But there are other news fields just as vast, and vastly more stimulating to millions of our fellow-men and women. I refer to news that emanates from the worlds of sport, literature, art, morals, entertainment, and the science of living. All of these departments and phases of life make heavy contributions to the news of the day.

Because of this universal need for the news, the newspapers unite all North America in one meeting place—every day. The newspaper is the universal "town hall," the "public square," in which persons of all kinds and conditions gather every day, and sometimes several times a day. For, only in the newspapers can people get all the news: completely, quickly, authoritatively.

WHY PEOPLE READ NEWSPAPERS

But people turn to newspapers for more than the news of the day. They turn to the newspapers for interpretation of the news. Observe the many and varied newspaper "columns," and remember, particularly, who conduct them. The roster of newspaper columnists contains the names of practically all persons who are guiding and influencing opinion in this country. With few exceptions, regardless of the number and variety of vehicles which they may occasionally or habitually use, their hold on the people depends upon their popularity in the newspapers, for only in the newspapers can they achieve fullness and freedom of expression.

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People turn to newspapers to see the news pictured. The growth of illustrative material and the popularity of picture pages in newspapers are amazing. The Continuing Study gives them a readership higher than any other type or division of editorial material.

People also turn to newspapers for advice, instruction and diversion in practically every field of human interest: home economics, interior decorating, dressmaking, gardening, health, to mention only a few—not omitting contract bridge, crossword puzzles, acrostics, and stamp collecting. And, by the way, the turned-up nose is definitely out of date as a symbol of the regard in which these newspaper departments should be held. The by-lines on newspaper departments and columns are the names deferred to wherever these specialties are discussed.

And we mustn't forget the comics (although few of them are funny any more)—those strips that bind together all classes and kinds of men, women and children, and make the arrival of a new baby in the Bumstead home more important than the abdication of a prince.

People turn to newspapers to see life, as it is lived today, with all of its glamour, hope, humor, sordidness and tragedy. Don't criticize! For this is the human comedy that provides the subject matter for all literature, art, music, philosophy and religion (and, may I say, good advertising). In the newspapers we, the people, see this material in the raw.

CIRCULATION FIGURES

Because people need the news and won't get along without it, the average circulation of newspapers in the United States and Canada totaled in the last six months of 1940: 43,347,593 copies a day on weekdays, and 33,114,268 copies every Sunday. This huge total represents an increase of 1,419,903 copies a day on weekdays and 901,569 copies on Sunday, over the corresponding periods of 1939.

During the last 20 years, the average daily circulation of weekday newspapers in the United States and Canada has increased 47 per cent, as against a population increase of 26 per cent, and this in the face of a general increase in the price of newspapers to the reader.

Speaking of price: For the privilege of reading newspapers, the people of the United States and Canada pay nearly a half billion dollars a year, more than eight million dollars a week. Believe it or not, the newspaper is Mr. and Mrs. North America's most expensive reading habit. Incidentally, they write (and pay postage on) more than fifty million letters a year to newspaper editors for help and advice on a thousand different subjects.

A BASIC ADVERTISING MEDIUM

Because everyone who reads reads the newspapers, newspapers are a basic advertising medium—regardless of the times, because newspapers are, of neces-

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sity, keyed to the times. In newspapers the advertiser can tell his story to the largest number of potential customers, and get the most complete coverage of any market or all markets. He can talk to the whole family, and reach people of all income groups, all ages, all classes, all occupations.

Since advertising is news—information, it will do a better job when it has a background of news and information. People actually *look for* advertising in newspapers. The Continuing Study shows that the median readership of display advertising by men is 80 per cent, and by women 95 per cent. In the case of women, that is a higher readership than is accorded to any editorial division. In the case of men, it is exceeded in readership only by the comics and pictures.

Where there's a newspaper, there's a market. But America is not one market; it is a collection of markets, differing widely in living and buying habits. And sometimes (perhaps never oftener than in the months to come) those living and buying habits change radically and rapidly. For example, consider these differences in shopping days: The biggest day for downtown shopping in Pittsburgh is Saturday; in Washington, D. C., it is Friday; and in Houston, Tex., it is Monday.

Consider also these differences in product acceptance: In a survey made in 14 metropolitan centers, on 17 grocery and drug products of everyday use, there were differences in product acceptance ranging from 12 per cent to 63 per cent.

DIFFERENCES IN MARKETS

No two markets are exactly alike; and the market of today is not necessarily the market that it was a year ago, or will be a month hence. There are differences in point-of-purchase, differences in prices customarily paid for necessities and luxuries, differences in types of homes, differences in lines of occupation. And differences in the character and importance of all these factors from one year to another—and sometimes, especially in these times, from one month to another.

In San Francisco 31 per cent of the shaving accessories are sold in department stores. In Evansville, Ind., only 4½ per cent are sold there.

In Columbus, Ohio, a third of the women are accustomed to paying $2.00 to $3.00 for street shoes. In Washington, slightly more than 10 per cent pay this amount.

Half of the families in Akron, Ohio, own their own homes. Only 28 per cent in El Paso, Tex.

In Butte, Mont., the percentage of families in the professional group is twice as high as it is in Dubuque, Iowa.

Bremerton, Wash., had a population of 10,000 in 1930. In 1940 it had a population of 15,000, a healthy, but normal, increase. Today, less than six months later, it has a population of 22,000 and is still growing.

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Charlestown, Ind., up to now, has been a village of less than a thousand souls. Today there are employed within its environs 22,000 persons, and another 10,000 may be added within the year.

It is hardly necessary to point out the effect that these market differences, and these market changes, have on the sale of goods—and upon the advertising campaigns designed to promote those sales.

Then there's the weather, and seasonal and climatic variations, all sharply defining and influencing the natural market and the current demand for countless products. (On one February 15, for example, it was 69 degrees above zero in Philadelphia and 47 degrees below zero in Minneapolis, a difference of 116 degrees on the same day.)

The advertiser avoids waste when he uses newspapers, because his advertising goes (or can easily be made to go) where he can sell, where he has distribution, where people want and need his merchandise.

OTHER ADVANTAGES OF NEWSPAPER ADVERTISING

Nor are these the only attributes and advantages of newspaper advertising. In newspapers, the advertiser can give his advertising a local touch, a hometown flavor. He can fit his advertising—overnight, if necessary—to new developments and changing conditions which affect peoples' buying. He can tie-in with the news of the day. "New Traffic Laws Now In Effect" said Super-Shell in a forceful advertisement that would not have been forceful in any other city than the one in which it appeared. "Everything for that Trip to Camp Forrest" said, in effect (and profitably), advertisers in Chicago newspapers, when the Thirty-third Division entrained on less than a week's notice.

"For Christmas, give this new model in its new case" said a manufacturer early last December in an effective and costly advertising campaign. Through a manufacturing delay the article advertised was not in the stores either before or at Christmas. No fault of the medium selected; it brought in the customers. However, had this campaign been earmarked for newspapers, the manufacturer could have saved many thousands of dollars, when he discovered that he could not deliver his goods on time.

Such incidents and accidents have always been with us. But, unless I have misinterpreted the significance of much that I have read and heard over the past months, we can expect a multiplication of these incidents, especially those due to supply and manufacturing disappointments, during the months to come.

WHAT THE ADVERTISER CAN DO

When necessary (and when isn't it?), the advertiser can get from newspaper advertising quick action, quick results; because the whole tempo of the newspaper is fast, and people are used to responding quickly to newspaper copy.

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Many of the things that advertisers want this year will have to be got quickly, or not at all.

And, of course, in newspapers, as in most other mediums (but not in all), the advertiser can present his whole story through the eye, show his package, his product, and its uses.

Along with sales, he can build good will and prestige, at a time when both are increasingly important, by defining his position and establishing his public relations in the same medium where the news that influences these problems is constantly appearing. By localizing his copy he can give it maximum appeal to the people living in the community in which his advertising is read. Many happenings that are only news outside of the community in which they occur are vital business factors in those communities. (As distressing as they are to think about, or even allude to, strikes and all forms of labor agitation and unrest are definitely in that category.)

He can facilitate dealer distribution and dealer cooperation when he advertises his product in the dealer's own medium. Ninety per cent of the retail advertising dollar is spent in newspapers. He can tell the people in each market where to go to buy his merchandise. And last, but not least, he can tell his story as often as he wants to, every day if necessary.

Homely, almost trivial, little precepts—many of these things that we have been discussing; hardly important enough, one might say, to bring up in a conference dedicated to preparation for an era filled with dangers and emergencies for American business. But isn't one of our biggest dangers, in times of great excitement, our propensity to forget or neglect the little fundamentals that influence everyday buying and selling?

SOME UNREASONABLE OPINIONS ABOUT NEWSPAPER READERSHIP

There are a few persons who say that people no longer read the newspapers. Important news, say they, is secured from other sources. And, besides, folks haven't the time—what with automobiles, movies, the radio and other pleasant distractions. All this, mind you, in the face of rapidly mounting newspaper circulation, and the everyday evidence of the doubter's own eyes and experience. I am not going to spend any time on that one, except to record the fact that I realize that the newspaper is not the only advertising medium that suffers occasionally because of unreasonable opinions.

But there's another type of skeptic who thinks that he is on safer ground, because he admits the obvious facts and evidence, but questions their implications. He says, "Of course people read the newspapers—but only the front page, the sports or society pages, and one or two others, depending on the vagaries of current and casual interest." For the past two years we in the newspaper business have been busy nailing that chap's hide to the barn door.

Our tools have come from the Continuing Study of Newspaper Reading, to which I have already referred—an undertaking of far-reaching significance,

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conducted by the Advertising Research Foundation and sponsored by the Bureau of Advertising of the American Newspaper Publishers Association. I should like to explain this project thoroughly some other time, but just now I'll limit myself to a few references.

Regarding the charge that most people skim over most of a newspaper's content, we can definitely say: "That's wrong!" The Advertising Research Foundation Summary of the first 24 Studies shows that the lowest median readership for any page was 37 per cent for men and 58 per cent for women. And 37 per cent and 58 per cent of any newspaper's circulation represents quite a few people. By sections—up to four sections (the most encountered in our studies thus far)—the readership did not vary, being around 98 per cent for men and 98 per cent for women for each section. And the inside pages of those sections were just as thoroughly read as were the front pages. I have already mentioned the median readership of display advertising—80 per cent for men, and 95 per cent for women—topping in most cases median reading for any editorial division or department.

The Study also demonstrates, unmistakably, that there is a heavy penalty placed upon the misuse of white space, and a proportionately gratifying premium placed upon its proper use.

SUMMARY

Most of the advantages daily newspapers offer business grow out of four general characteristics of the medium:

Its Universal Appeal
Its Daily Appearance
Its Fresh, Vital Contents
Its Localized Circulation.

These advantages, always important, loom larger than ever against the conditions that now cloud our horizon.

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HOW DIRECT MAIL CAN BE USED EFFECTIVELY TODAY

By L. ROHE WALTER
Advertising Manager, The Flintkote Company
President, The Direct Mail Advertising Association, Inc.

IN attempting to set up a buying yardstick to evaluate both the potentialities and limitations inherent in any advertising media it has always seemed to me, as a user of all types of advertising, that several basic premises should be kept in sharp focus.

The first of these obvious truths is that markets are people. Secondly, that an advertising medium is an avenue to a market—a method of approach to the people comprising the market. The third is that, despite all sales claims to the contrary, all types of advertising are good and each in its place is best. And finally, our jobs as merchandisers make it necessary that we know when and where and how to use the advertising media at our command so as to best produce profitable sales at the most economical costs consistent with good business practice.

WHAT IS HAPPENING TO MARKETS

Because "markets are people," let's briefly consider what is happening to our markets today, where new ones are developing, what new spending power, buying habits, and market developments characterize the conditions of today's defense and war economy.

The first and foremost fact that confronts us is that the physique of the United States is changing daily and immeasurably. By the time the defense program job is only half-completed this United States will be a far different country than it was six months before. Many people are aware this change is abroad in the land, spreading with the rapidity of a prairie fire, however, few,

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Later Mr. Walter became Sales Promotion Manager of the *National Geographic Magazine*, and for several years acted as marketing consultant for leading firms. During the time he has served as Advertising Manager for The Flintkote Company, sales promotion campaigns originated under his leadership won awards as "Direct Mail Leaders" campaigns for 1936, 1937 and 1938.

Mr. Walter is the author of "Effective Marketing" (McGraw-Hill) and co-author with Frank Egner of "Direct-Mail Advertising and Selling" (Harpers).

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indeed, are there who can now fully appreciate both the bigness and nearness of that change.

The $15,000,000,000 domestic defense program for the 12 months ending next June 30th and the $7,000,000,000 lease-lend effort are already reflected in trends affecting our markets. Perhaps a brief resumé of these trends will help sharpen the picture, bring rapidly-moving targets into range, and emphasize the historic fact that while the United States is still a non-belligerent, while not a soldier is being ordered to the battlefront, while no planes threaten to bomb our cities, yet on March 11, 1941, with the signing of the Lease-Lend Act, American business entered the war and embarked upon a road on which there is no possibility of turning back or stopping.

THE BOOM TOWNS

Defense is bringing back the boom town, and the boom town to merchandising implies shifting markets, new sales opportunities, new types and amounts of purchasing power, readjustments in sales policies, shifting of sales personnel, new distributors, emphasis upon new sales appeals in advertising and direct selling activities.

The last time you went through Charlestown, Ind., you saw a village of 958 persons. Employment in Charlestown today is 22,000. Construction of the bag loading plant began last month and work on the powder plant is two months ahead of schedule. When the plants go into operation, employment in the du Pont plant is expected to total 7,000 and in Goodyear 3,500.

Bremerton, Wash., is another boom town. From 1930 to 1940 population increased 50 per cent to the new census figure of 15,134—but in the last year it gained another 50 per cent, and even that figure doesn't include thousands of men who commute from Seattle day and night, a one-hour trip. Ferries now make 26 round trips daily. The Government is building two housing projects, one of 840 units, another of 600. The small city led the entire Pacific Northwest in construction permits during January. The Puget Sound Navy Yard, its one industry, employs 12,500 men and has a monthly payroll of $1,500,000. Its nine public schools do double duty now with two pupils to a seat in the daytime and operate double shifts for 2,700 vocational students at night.

In the Kansas City area, to cite another example typical of many, just two defense projects nearing completion will involve an annual payroll of 2½ million dollars monthly, a total of 30 million dollars a year. The cost of erecting an ammunition factory will exceed 18 million dollars, while the buildings and equipment for the nearby bomber assembly plant will cost 10 million dollars. Besides these activities, which are government-sponsored, Kansas City firms already established have on hand defense orders totalling nearly 16 million dollars. The number of employees engaged in defense business in the Kansas City area will exceed 25,000.

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What, also, are likely to be the effects upon our markets of the erection of the 46 Army training centers that will house 1,500,000 trainees by July 1, 1941, and possibly be increased to house double that number in another year?

Army authorities estimate that each soldier added to a camp brings at least one new civilian to the nearby area. The United States Public Health Service more conservatively figures one new civilian to every two soldiers. Taking the Health Service figures, this means that the 13,000 inhabitants of Brownwood, Tex., probably will be increased to 28,000—the 30,000 troops in training there will bring in 15,000 new civilians. Hinesville, Ga., had 800 people late in 1939, will have to absorb 7,500 more when 15,000 troops move in nearby. Around the little town of Starke, near Camp Blanding, Fla., will be 60,000 soldiers. Starke's 1,400 citizens will be increased by 30,000 more men, women and children. Alabama's Anniston will have to provide for 10,000 newcomers; Hattiesburg, Miss., for more than 25,000.

Defense needs are also shifting new additions to established industries to new centers. Some important portions of the automobile industry are locating not in Detroit but in the Chicago area. A new $31,000,000 Buick plant is being built in Melrose Park, western suburb of Chicago, while Studebaker will also locate a new $9,000,000 feeder plant for aircraft engines in the Chicago area.

INCREASE IN NATIONAL INCOME

The boom towns, the 15 billions already committed for domestic defense in the 12 months ending next June 30th, the recent peak carloadings—all these and many more factors are reflected in the present 11 per cent increase in national income over a year ago and make possible of realization the prediction that approximately three and one-half million United States families, largely of the factory worker type, will enter the $1,500 to $2,000 annual income class for the first time during 1941. Furthermore, these trends indicate that by the end of 1941 there will be 3,000,000 jobs in defense industries, 1,000,000 new jobs elsewhere, 1,000,000 more men under arms than a year earlier—full employment of all who can work.

All of this spells boom and boom controls for the period ahead. The flow of cash will undoubtedly reach fantastic proportions; will probably exceed peak World War spending by more than 25 per cent before adjustment is made for lower prices. The revised schedule now calls for spending of at least 23 billions in the year starting July 1st, and this huge sum is expected cash outgo, not "authorization spend." The highest previous New Deal spending for one year was under 10 billions so that the present program contemplates more than doubling the cash outgo of the "Pump-Priming" period. It means that total government spending (two-thirds for defense) of $1,200,000,000 in March, 1941, will rise rapidly to 2 billions monthly within a year; that this astronomical expenditure may continue for many months, even years, since this nation is

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already prepared to spend a total of 40 billions for defense, twice as much as was spent for war in 1917-18.

In attempting to evaluate the effects, marketwise, of an anticipated 2 billion dollar monthly government expenditure for months on end, recall what happened when the Federal Government paid the soldiers' bonus in 1937. At that time the Federal Government poured out 600 millions of increased purchasing power in each of two months only, and when that flow of cash started turning around inside the economic system it produced the "boom" of 1937. Small wonder, then, that Bernard Baruch tells the President the effects of the present spending will be climactic unless controlled, that the lid can be blown off prices, and that there can be a mad scramble for goods that will bring trouble for industry and for Government.

Furthermore, the idea that the defense program is a flash in the pan should be discarded by those business men who hold this point of view. The fact is that large-scale production is underwritten for at least two, possibly three, years ahead, regardless of the war's shifting fortunes.

As *Sales Management* recently stated, the "real money buying power" of the people of the United States was higher in 1940 than ever before, and is now rising steadily toward a new record of 83 billions in 1941. The effective buying income of the nation in 1940 is estimated at $74,000,000,000, nearly 7 billion more than in 1939. Consequently the American people, in 1940, had an actual purchasing power 10 per cent greater than that of the previous record of $82,000,000,000 in 1929, because the 1940 cost of living was 18 per cent less than in 1929.

DIVERSION OF RAW MATERIALS, ETC.

Another basic trend, vitally affecting our markets and our activities as merchandisers, is given rise to by the increasing compulsory diversion of raw materials, skilled labor and factory capacity of the consumer industries in order to speed war orders. The rationing of almost all metals for civilian use is in the offing, with aluminum and steel users most likely to be affected first. Manufacturers of appliances, autos, toothpaste and cosmetics are the most conspicuous of a host who face the problem of substitution in product and packaging. The rationing of some semi-luxuries by summer seems likely.

England, you will recall, began in this same way to economize for war and wound up with a full rationing of "non-essential" goods—right down to brooms and kitchen kettles. It should be noted, however, that this "defense saw" cuts two ways: While the sales of aluminum kitchenware decrease, those of enamelware and earthenware will rise; more plastics will be used instead of metal, in appliances; the shortage of walnut due to gun-stock demand serves to introduce cherry as a substitute wood for furniture finishing; carpet makers are already increasing their use of rayon mixtures; synthetic textiles are being expedited to decrease dependence upon Japan for silk—nylon in rainwear and

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corsets, vinyon in gloves, woolly fiber from soybeans in hats; more glass will be used in place of tin; and so on ad infinitum, as substitute materials meet old and new market opportunities and needs.

Priorities and shortages of various materials, which are forcing numerous changes in manufacturing processes, are already beginning to be reflected in advertising procedure and methods. One of the newest jobs facing market research men is to test established products which have new ingredients, to find out if consumers are conscious of any change and, if they are, whether they approve.

In face powders, for instance, American and English talcum has replaced the French and Italian product, cut off by the war. Imported ingredients for perfumes and other cosmetics have been curtailed and substitutes used. Copper, for instance, is used in making lipstick dyes and other cosmetics, and shortages of the material are beginning to affect production. Brass is being supplanted in lipstick containers by substitutes. These changes are coming thick and fast, and it is up to research men to find out how the consumer is taking to them. On their findings new advertising campaigns and appeals are now being based.

Inevitably, this boom situation—involving a growing scramble for goods, a greater shortage of some kinds of goods as defense needs soak up materials that once went to fill civilian demand, and an increased competition for skilled workers accompanied by a rising demand for higher wages—will necessitate control by (1) the use of government power to break bottlenecks in suppliers of labor, materials, plants; (2) the use of government power to ration some materials, to put a ceiling on some prices, to place a top on some wages; and (3) the possible diversion of a portion, at least, of consumer purchasing power into war savings, by aggressive promotion of Treasury "Baby" bonds; and (4) possible legislation putting a curb on consumer credit.

These, then, are some of the facts that stand out today in bold relief, as we attempt to gauge the effects upon our market structure of rapidly shifting economic, political, and international conditions.

USES OF DIRECT MAIL ADVERTISING

Obviously, in these new marketing conditions created by the defense program, certain advertising media, possessing inherent characteristics better adapted to the pressing needs of their users, will be more widely and effectively utilized than heretofore. Direct mail advertising, because it is selective, quickly prepared, adaptable to immediate needs, flexible in form and extent of use, will probably find increased acceptance by American management as a general utility sales tool.

Four specific uses of direct mail advertising seem particularly logical. Briefly these may be summarized as follows:

1. Because direct mail advertising can be brought into use quickly, it is ideally suited for a wide range of uses when executive planning must

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be on a short-time basis and when sudden changes of plans are frequently necessary.

2. Because direct mail messages reach individuals in their homes when this is desirable, they are peculiarly suited for use in molding employee and stockholder attitudes.
3. Letters or other forms of direct mail advertising are a very satisfactory means of explaining necessary price changes, uses of substitute materials, lack of ability to deliver materials because of defense needs, etc. Such explanations should be made to conserve the good will of customers and to protect valuable brand names temporarily forced out of the market because of defense requirements.
4. Because direct mail is a selective selling instrument, it is well suited for use in reaching the specialized group of prospects (markets) which are and will continue to develop as the effects of Selective Military Service and defense priorities are increasingly felt.

This sometimes neglected stepchild of the advertising world, direct mail, has a few other characteristics which, unless understood, may prove detrimental to its efficiency.

COST FACTOR

Direct mail is definitely not a cheap form of advertising. You can, for example, buy a page of space in the *Saturday Evening Post* for about $2.25 a thousand. You can buy a page in the *New York Times* for somewhere between $2.50 and $4.00 a page per thousand. When you use direct mail, your cost will certainly average $20.00 per thousand, and more likely double that figure. To put it bluntly, direct mail is definitely not a cheap form of advertising. It is, indeed, an expensive kind of advertising, and therefore it must be carefully controlled and directed to the highly selective group of prospects for whom it is intended.

Because of this cost factor, if the direct mail advertiser fails to carefully build his mailing list and properly qualify his prospects, he inevitably invites needless expense, unsatisfactory returns, even sales disaster. Consequently a good mailing list, assembled with skill and regularly kept up to date, is the foundation stone upon which efficient direct mail advertising and selling is based. To a far greater degree than is possibly true of other media, the returns from direct mail are (like all printed advertising) largely determined by how many of the right kind of people see it. Properly controlled, sent to "prospects" instead of "suspects," direct mail's productivity can be enhanced manyfold.

Few business men appreciate the tremendous number of changes that are necessary in keeping a mailing list up to date at all times. A list prepared by Buckley, Dement & Company of Chicago shows the percentage of change annually for 25 lines of business to range from 21 per cent to 33 per cent. These

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changes include not only concerns going out of business and new concerns that have started business during the year, but also changes in addresses, and changes in financial rating.

IMPORTANCE OF FOLLOW-UP

Above all, don't expect the impossible of your direct mail advertising activity. Recall that emphasis has been placed on the fact that direct advertising has been aptly called the advance agent, the missionary man, "the handshake ahead of the meeting." Best sales results are usually attained when this advance missionary sales effort is closely followed up by personal sales activity.

Let me further illustrate this point by asking that you assume you are the seller of a specialty product in a city of 250,000. You employ four salesmen and have a carefully selected list of 1,250 prospects in your file. You are convinced you can sell more of this product if you promote it more aggressively. The sales representative of the manufacturer urges you to use a direct mail campaign consisting of four mailings, at 10-day intervals, to each of your 1,250 prospects. The cost to you, including the postage, will be 24 cents per name, a total of $300. Are you using the best business judgment if you accept the suggestion of the manufacturer's sales representative and send out these mailings as he proposes?

The seller of a specialty product, known to me, facing the same situation, made his $300 investment produce profitable sales results by following this procedure. He decided that he would be using poor business judgment if he followed the suggestion of the manufacturer's sales representative and issued a direct mail campaign of four mailings, at 10-day intervals, to his 1,250 prospects, because his available four salesmen could not follow these mailings to so large a list of prospects soon enough to enable him to get maximum sales returns from his advertising expenditure.

A more logical and sensible controlled plan of gearing personal selling with direct mail promotional effort was used.

1. The prospects were divided into four groups by neighborhoods, one for each salesman.
2. Each Saturday, 50 direct mail pieces per salesman were sent out. On the following Monday or Tuesday each salesman called on as many of these 50 prospects as was possible. On Tuesday evening a report was made on these calls and that same evening, 10, 20 or 30 more direct mail letters were sent out per salesman.
3. Thursday and Saturday evenings this same procedure was repeated.

Thus a continuous direct mail activity was carried on. Every recipient of a direct mail piece received a personal sales call within a few days after the receipt of a mailing piece. Careful sales records were kept and each salesman had an active list of prospects to work on every day so that his selling efforts were systematized and directed at known sales prospects.

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The sales results obtained by the seller of the specialty product were far greater than they would have been if mailings had been made in one job lot at 10-day intervals and in such quantities that prompt personal sales calls, except on a minority of prospects, were physically impossible. This merchandiser recognized that, like good food, prospects are not much good when they have been allowed to cool off; that best results are obtained when advance missionary direct mail effort is closely geared-in with personal selling.

PART OF WELL-ROUNDED PROGRAM

In the consideration of your advertising plans and the part direct mail can play don't overlook the fundamental fact so clearly stated recently by Mr. Perry I. Prentice, Vice President, *Time*, Inc., namely; that large advertisers cannot get "the full benefit of direct mail unless their direct mail is an integrated part of a well-rounded advertising program. One of the best ways to make space advertising more profitable is to use direct mail to personalize the message you have broadcast through your newspapers and magazines. Just as the best way to make your direct mail profitable is to back it up with publication space."

In attempting to do this, it is highly advisable to recognize the fundamental difference between publication space and direct mail, and appreciate the fact that good publication advertising usually makes a poor selling letter. For, in publication advertising, or broadcasting over the radio, you are talking to people in a group as from a public platform in a hired hall, while in direct mail you are talking directly to individuals. On most products there are certain things that can be said best from the public platform and other things that can best be discussed man to man. At that point of your sales promotion where you want to make an important prospect understand what your product or service can mean to him personally, you will find direct mail effective as the means of reinforced coverage to carry your sales story quite literally "home" to the prospects you are most interested in reaching. That distinction, so ably summarized by Mr. Prentice, is an important one to remember about direct mail.

So much for a few of the more important characteristics, limitations, and varied uses of direct mail advertising. What about its future use as a collateral sales aid to direct-contact sales work in our present defense and war economy?

Competent United States advertising authorities estimate American management will increase 1941 expenditures for direct mail over 1940 by at least 25 millions of dollars, possibly more, because this utility sales tool possesses inherent characteristics that ideally adapt themselves to the rapidly fluctuating market conditions and sales needs faced by merchandisers of products, services and ideas in this troubled Year of Our Lord 1941 and the possibly more harassing years immediately ahead.

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THE VALUE OF OUTDOOR ADVERTISING

By FRANCIS N. McGEHEE
Vice President and General Sales Manager
Outdoor Advertising Incorporated

NOT so many years ago, when I was Promotion Manager of a large middle-western evening newspaper, I wrote an ad based upon Longfellow's great poem "The Children's Hour." It was designed to emphasize the advantage of running advertisements in evening newspapers rather than in morning papers, on the theory that people had more time to read ads in the evening.

It was a beautiful ad. The headline said "Advertise in the Children's Hour," and Longfellow's complete poem was reprinted as the *pièce de résistance* to emphasize the calm, peaceful leisure of the hours after the day's work is done, hours when people had little else to do but read newspapers—and evening newspaper advertisements. The illustration showed two tiny tots tripping down a flight of stairs in their flannel pajamas in the dusk of the evening to bid poppa and momma good-night. At the bottom of the page was a picture of poppa and momma sitting placidly by the fireside, under the glow of a lamp on the "library table," quietly, carefully and studiously perusing the advertisements in the evening paper.

Everything was calm and peaceful. It was quite evident that poppa and momma had not another thing to do.

As I have said, that was not so long ago, and at that time the advertisement was a perfectly plausible and realistic description of what went on in most American homes. But, how times do change! Look what we have with us today! What goes on in the evening in your own home, in your neighbor's home, and in your customer's home? The kids are in their separate bedrooms with two radios blaring on different programs, poppa is sitting by the fire (if he is at home at all!), completely exhausted and stupified by the stresses

THE AUTHOR Francis N. McGehee was for 17 years associated with the Scripps Howard newspapers in sales, promotional, and executive capacities, spending most of his time with the Central Division, Scripps newspapers. He was Promotion Manager, National Advertising Manager, and Advertising Manager of the Cleveland *Press*; and later, Assistant for the General Business Manager of the Central Group, Scripps Howard newspapers.

From this position Mr. McGehee came to the New York *World-Telegram* in an advertising executive capacity; subsequently, he turned to the outdoor advertising business, and is now Vice President and General Sales Manager of Outdoor Advertising Incorporated, of New York City.

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and strains and worries of his busy day. And momma is out taking a rhumba lesson!

Now, I realize that I have stretched the picture a bit. I may have overemphasized the violence of modern family life, but only in an effort to remind you of a great change which has occurred in the living habits of your customers, a change which has great bearing upon modern sales and advertising practice. Think of what has happened in very recent years to change the pattern of the "Children's Hour"!

THE CHANGED PATTERN

In less than 10 years we have seen the advent of picture magazines, the trend toward pictures and telegraphic news in all visual media, scores of "reader digests," short-short stories, the universal availability of radio, telephoto and wire photo, faster publication and distribution of magazines and newspapers—innumerable evidences that the public today wants more and more information, but wants it in capsule, picture form. One need not look far for evidence that the public has neither the leisure nor the inclination to take a lot of time to get the information it wants. It wants it *fast!*

These conditions have created a psychological condition which is adding to your difficulty in telling the story of your products. The complexities of modern life, stimulated by a fund of information so great that no one has time to assimilate it all, have brought about a condition which is seriously affecting advertising productivity.

PHYSICAL HORIZON BROADENED

In addition to these changes which have broadened the mental horizon of the American consumer, a great broadening of his physical horizon has occurred coincidentally. There are now over 26,500,000 private passenger automobiles and over 40,000,000 driving licenses owned by people who want to "go places," *fast.* Dense urban centers are becoming decentralized. The 1940 Census shows that, while metropolitan city populations increased only about 5 per cent in the past 10 years, the suburban areas surrounding these cities increased over 12 per cent. People are moving greater distances from major buying centers, and adding to the problems of manufacturers whose distribution outlets are in the downtown sections of our major cities.

Highway passenger transportation has increased from 382,000,000,000 passenger miles 10 years ago to 543,000,000,000 miles last year. In 14 years traffic movement has seen an increase of 178 per cent. Think of these physical changes which have occurred in less than 10 years: 457,000 miles of new major roads, highways and streets, 130,000,000 miles of secondary roads, 55,934 major bridges, 45,200 secondary bridges.

And, the attractions which are stimulating population movement have increased to an equal degree.

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In less than 10 years we have seen this happen: 21,500 new parks and recreational centers, 3,700,000 acres of forest cleared, and 2,010,000,000 new trees planted, 6,733 miles of stream improvement, 4,510 fish pools built, 923,000,000 fish hatched and stocked in these streams, and 36,470,000 acres placed under rodent control.

All of these conditions have greatly broadened the physical horizon of our people, and from an advertising and sales standpoint they have made a more liquid, more fluid, more unstable market. Population no longer stays put. Advertisers no longer are able to put a pin on a map, say to themselves that certain marketing conditions exist in that territory, with any assurance that the population will be at that point when they are ready to release their sales and advertising programs.

THE PROBLEM CHILDREN OF MODERN ADVERTISING

"Busy People with Bad Memories" are the problem children of modern advertising. They have more things to do, more things to see, more places to go, more things to worry about than ever before—and they have less time to consider the propositions of advertisers, many of whom still persist in writing reams of word copy to an audience which will not, and can not, take adequate time to read it.

Clark and Starch Magazine Copy Researches, the Continuing Study of Newspaper Readership, the radio "audimeters," all confirm the fact that too much of the public is "tuning out" advertising copy—and pushing buttons on its radios—after it has read the pictures and the headlines, and heard the music. It is not unusual to see a Clark report in which a full page advertisement has been "observed" by 40 per cent of the magazine audience, with less than 50 per cent of these 40 per cent "observing" more than the picture, and with less than 10 per cent reading any part of the text. There is something wrong, when, out of 201 evening programs checked in a full week in a big middle-western market recently, only six had a listenership of 25 per cent or better—and 54 per cent had less than 5 per cent.

We hear all too frequently that "advertising doesn't pay as it used to pay." That condition is not the fault of the medium or media, for the availability of radio has increased, and the circulations of magazines and newspapers have increased; and the circulation efficiency of outdoor advertising has seen vast improvement, standardization—and increase. The basic difficulty lies in the manner in which manufacturers are approaching the problem of advertising.

To be effective a sales message today must be brief, it must have emotional appeal and attraction power, great visibility; and this brief message must be told again and again and again, if it is to be remembered. It is for these reasons that outdoor advertising, because it is brief, dramatic and pictorial, and

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because it hammers home a fundamental sales message, hour after hour, day after day, is the medium best geared to these active times.

DEVELOPMENT OF OUTDOOR ADVERTISING

No medium has so closely paralleled in its recent development the fundamental change in the character of our population as has outdoor advertising. This is what has happened to the medium since 1931:

Among the more important happenings from the viewpoint of service to advertisers was the establishment of Outdoor Advertising Incorporated in 1931. This company provides the outdoor industry with a single sales organization, amply staffed to represent it in the national advertising field. No other medium has an organization like it. In O. A. I.'s 12 offices any advertiser or advertising agent anywhere in the country may obtain whatever information he requires to make his outdoor advertising activity successful and profitable. Representing the entire industry, O. A. I. can function smoothly and efficiently in bringing to advertisers the advantages of the medium wherever it fits merchandising and sales problems.

The past decade has seen also the completion of a movement to effect national standardization of poster structures. The 24-sheet panel is the same in dimensions and physical characteristics throughout the United States. Started in the 1920's, this movement was brought to culmination in the early 1930's, and it makes possible the uniform use of the poster medium in every market, everywhere.

Another great program of the outdoor industry was completed in the past 10 years. The adoption by all organized plants of the principle of equalized showings, and the equitable distribution of panels in each market, has assured each advertiser that he has an equal opportunity with every other advertiser to reach the traffic and circulation in the markets in which he is interested.

The establishment of the Traffic Audit Bureau, which completed its first audit only six years ago, has given to users of outdoor advertising the same circulation information available in other media. Today, the traffic measurement principles formulated by the T. A. B. and adopted nationally provide advertisers with a uniform yardstick through which they know, with a remarkable degree of accuracy, the volume of circulation being generated by their showings and the cost-per-thousand of effective advertising impressions in every market by these showings.

Great changes have occurred in the painted bulletin and electric spectacular field also. Bulletin dimensions and general characteristics are standardized, the procedure in the location of the painted bulletin and the structural characteristics of these great outdoor advertisements have been modernized; and the advent of new materials, such as plyboard, plastics, better paint, fluorescent and neon tubing, violet ray reflector systems, and other mechanical innovations

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have brought greatly improved visibility and efficiency to these forms of outdoor advertising.

"DECIMAL SHOWINGS"

New types of showings, called "decimal showings," have added tremendously to the flexibility of poster advertising. Where previously a number of advertisers could not bring about a proper relationship between outdoor advertising costs and sales expectancy, because of the relatively inflexible expense of the medium, new allotments of panels have made it possible for any advertiser to buy poster advertising which fits, from a circulation and coverage standpoint, whatever may be considered his sales expectancy in any month in any market.

OTHER INNOVATIONS

The industry has also recognized differences in traffic flow and circulation potentialities in the winter months in northern markets, and last year adopted the policy of providing an additional number of panels during winter months in northern markets to provide wintertime advertisers with the same circulation opportunities available to advertisers who normally reach their sales peaks during other months of the year.

Pre-testing of outdoor advertising copy, and measurements of outdoor advertising copy efficiency, exemplified by a study conducted recently by Outdoor Advertising Incorporated which won a 1940 Annual Advertising Award, is a field rapidly being explored by the industry and its advertisers. Measurements of the efficiency of various copy treatments, and the impact of these treatments on the consumer, are bringing greater and ever-greater sales productivity to outdoor advertising.

These and many other innovations, plus the fact that the medium provides day-by-day repetition of that simple fundamental sales message so necessary in these hectic times, are the reasons why outdoor advertising is today the best medium through which to sell "Busy People with Bad Memories."

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Tell Them — Now

Business and Industry would probably still be in the dog house but for the defense demands upon our factories. Regardless of heroic and patriotic services rendered during the emergency, the respite may only be temporary. There is, of course, a public relations job to do. But don't overlook this fact. Of all the public who should really understand you and your business, your customers and your prospects are the most important. You can tell them your story in their language in their business paper inexpensively. Tell 'em.

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MARKETING SERIES NUMBER 45

THE VALUE OF PSYCHOLOGY IN SELECTING SALESMEN

UNIVERSITY OF CALIFORNIA
JUL 1 1941
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BY

THOMAS M. STOKES
METROPOLITAN LIFE INSURANCE COMPANY

WILLIAM C. TREUHAFT
THE TREMCO MANUFACTURING CO.

O. A. OHMANN
THE TREMCO MANUFACTURING CO.

MORRIS S. VITELES
PHILADELPHIA ELECTRIC COMPANY

MARION A. BILLS
AETNA LIFE INSURANCE COMPANY

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330 WEST 42nd STREET, NEW YORK, N. Y

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INTRODUCTION

By THOMAS M. STOKES
Staff Supervisor, Field Training Division
Metropolitan Life Insurance Company, New York

AS we all know, there has been a great deal more research in the field of production than in the field of distribution. The men engaged in production research are physicists, chemists, geologists, and specialists in other branches of science. In the sales organization, the scientist who is best equipped to render service to this organization is the psychologist. Now, when scientists contribute to business organizations, whether in the field of production or in that of selling, their contribution is the application of scientific methods to the problems of those business organizations.

There are doubtless many reasons why so much more research has been undertaken in the field of production than in the field of distribution. But I should like to mention just one, and that is that it is much easier to discern the relationship between scientific research in production and the practical problems involved in production than it is to discern such relationship between scientific research in the field of selling and sales management and the practical problems of that field.

The business executive and the scientist have this in common: Both are vitally interested in predicting future events and in exercising some control over those future events. The future events with which we are concerned here relate to how a man who is appointed a salesman is likely to perform on the job. The control of those future events is concerned with what this man will do *as a result of* the training and supervision he will receive.

But the primary or natural interests of the sales executive and the scientist diverge somewhat and will continue to do so until the two get together and learn to talk the same language so that they can understand each other's problems. This divergence in point of view is due to the fact that "the future" in which the sales executive is vitally interested is the immediate future. He is, of course, also interested in long-range programs, but he is vitally concerned with tomorrow, with next week, with next month, and with next year. And the reason for this is clear: His success as a field executive and the success of his organization may depend to a great extent on what is done next week, next month, and next year. He is somewhat like the general in the midst of a battle who may be very much interested in the strategy of the war as a whole, but whose primary concern for the time being is the prosecution of that battle. When that battle is won or lost, it will probably be followed by other battles.

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Now, your scientist, on the other hand, is primarily interested, I believe, in a more remote future. He is thinking in terms of the next year, the next two years, the next five years. The reason for this is also plain: The scientist seeks accurate and reliable facts which he can use to predict this future and to exercise some control over it; and the essential facts he needs cannot be quickly discovered.

There are a number of instances in American business and in American sales organizations where the psychologist and the business executive have gotten together. This "meeting of the minds" has been due to two factors: One has been that the executive realized that the psychologist possessed techniques which could be immediately used to help him in solving some of his current problems. The executive learned that, in addition to test procedures and statistical research, certain "clinical" methods had been developed—methods of interviewing, for example—which could be of immediate benefit to the sales executive. On the other hand, the sales executive who has made the greatest use of the talents of the psychologist has appreciated the importance of research as a continuing operation. He has not looked upon the psychologist or the scientist as merely another assistant to be assigned particular jobs to be completed during the next few weeks or the next month or year. He has thought of him as someone who, as he understands the business better, can provide a continuing service that will become increasingly more profitable—if not indeed indispensable—to the sales organization.

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THE PSYCHOLOGIST'S ROLE IN THE SALES ORGANIZATION

By WILLIAM C. TREUHAFT
President
The Tremco Manufacturing Co., Cleveland

IT will be helpful, I believe, if I begin with a brief outline of the nature of our business and the type of sales organization whose development I shall discuss.

We are engaged in the business of manufacturing and distributing a variety of products used in the maintenance and construction of industrial plants, institutions (such as schools, hospitals and the like), office buildings, commercial buildings, mines, and structures. About 75 per cent of our sales are for maintenance purposes.

Our sales are made directly to superintendents, managers or owners of such properties, through an organization of about 75 highly trained salesmen, operating in territories in the eastern part of the United States and throughout Canada. We do not sell through retail outlets.

Our salesmen must be trained to understand how the floors and roofs of such buildings can be maintained economically; how interior walls and surfaces should be treated for maximum protection and improved appearance; how exterior surfaces should be protected; how equipment can be protected; how various waterproofing problems are approached; and how the problems incident to the use of many of our products in the construction of new buildings are solved.

Through their knowledge of economical maintenance methods and their helpfulness in solving maintenance and construction problems, our salesmen endeavor to gain the confidence of their customers to such a degree that these purchasers come to rely upon them for advice in the maintenance of their properties.

It will be apparent that we require on our sales force men of rather high caliber, with the ability to do creative selling.

Our sales force is directed by a sales manager, who spends about one-half of his time in the field. He is assisted by three assistant sales managers, who spend all their time in the field and do some direct selling themselves.

BACKGROUND OF THE EXPERIMENT

It will be clear that company growth in a business such as ours is largely proportionate to the growth of its sales organization. This was an especially

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important problem in the early years of the company's history. The major efforts of our sales manager, as well as my own, were devoted to employing, training, and trying to develop salesmen. We had had considerable experience and we believed that we had developed some skill. We had instituted factory training schools; and later, as assistant sales managers were appointed, a carefully organized program of training on the job was worked out. Frequent two- and three-day conferences of the sales management staff, in which our assistant sales managers participated, were directed toward improving our methods and educating our assistant sales managers. Constant study was devoted to the problem. Yet, as years of experience accumulated, the high mortality of new salesmen clearly indicated that the job we were doing was not good enough. We determined to experiment with better methods of employment.

We had heard of the success of tests in other fields of sales personnel selection, such as in the life insurance business. An investigation was undertaken with the object of building up a battery of tests which we could use in our employment procedure. Members of our office staff who had had college training in the use of tests assisted. After considerable research a battery of tests was prepared, including chiefly questions which would indicate intelligence, mental alertness, constructive observation, thoroughness, constructive imagination, and adaptability. These were administered to our entire sales force in 1936. To our surprise and disappointment, we found no correlation whatsoever between the test results and the degree of success attained by our salesmen on the job. We were baffled but not discouraged.

THE PSYCHOLOGIST STEPS IN

We then came to the conclusion that the problem required the assistance of a specialist with training along these lines. We began to suspect that the solution would be found only in the application of recognized and proved principles of test construction to our particular problem. We realized at the same time that we would have to familiarize anyone whom we brought in to help us with some of the background of our business, and give him a practical understanding of our problems before we could expect very much assistance from him. We had in mind, too, that in selecting a psychologist we should seek a man who was not primarily a theorist but one who could acquire a realistic understanding of business affairs. Our search resulted in the employment on a part-time basis of Dr. O. A. Ohmann, head of the department of psychology of Cleveland College, Western Reserve University.

We expected that it would require two years to give the psychologist sufficient understanding of our business to enable him to make a practical contribution to the solution of our problem. But almost from the beginning some benefits became apparent. I have already referred to our practice of holding

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conferences in which our sales managers and the headquarters sales staff tried to analyze the causes of failure and reasons for success of the men employed in the preceding period. We believed that these discussions had great educational value, in that they would, we hoped, enable our sales managers to crystallize their thinking in regard to desirable and undesirable traits in applicants, and learn to recognize these qualities more readily in the men they interviewed. Dr. Ohmann participated in these discussions from the beginning. Almost at once a much clearer understanding of causes of failure resulted. Whereas we had been in the habit of attributing failure chiefly to such general factors as lack of intelligence, laziness, etc., we learned soon after Dr. Ohmann's participation in these conferences to break down these general and vague descriptions into factors such as: emotional difficulties arising out of domestic situations; family background; early work habits; anti-social tendencies; emotional attitude toward training and supervision; habits which were well established on previous jobs and which interfered with adaptation to the Tremco job. Especially marked was the development of a new consciousness of the important role that emotional factors played in the success of a beginner. Through these conferences there evolved a clearer understanding of what to look for in evaluating applicants and how to recognize these qualities.

STAFF COOPERATION

It was to be expected that there would be some resistance to the acceptance of these new ideas by sales managers who had come up from the ranks and had made their marks by bare-handed selling. It is natural that in such a group there should be skepticism toward suggestions made by an outsider—especially by a psychologist, with all the mystical implications of psychoanalysis inherent in his title. We tried to develop a respect for the psychologist's opinions and advice in two ways: First, we made clear that we did not expect to receive a great deal of practical benefit from his work until he had become thoroughly acquainted with all the problems incident to the employing, training and development of salesmen in the Tremco organization. And we placed upon our assistant sales managers part of the responsibility for giving the psychologist such an understanding. He studied salesmen in the field in their day-to-day selling, working with the best as well as the poorest. He accompanied our assistant sales managers when they were employing men and when they were training them. He attended our factory training schools; he attended group conferences of salesmen in the field, and general conferences; and he held many formal and informal discussions with our assistant sales managers and the executives of the company. In short, it was emphasized that he was going to learn our business and that he would increasingly speak with a more practical knowledge of our problem as he knew it better. Second, we made it clear that our assistant sales managers could accept or reject any opinion of

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the psychologist and any methods he proposed. Ideas were adopted as company policy only after there was general agreement that they were sound. We pointed out, however, that just as one considered the advice of specialists in the solution of business problems involving law or engineering, so in the realm of evaluating human qualities a specialist's analysis might be of value. We made it clear, however, that the final responsibility for the selection and training of salesmen must still rest upon the sales management staff. The psychologist was to be regarded as a technical expert whose advice and suggestions should be taken into consideration, but he was in no way to replace the executives and usurp their functions.

FUNCTIONS OF THE PSYCHOLOGIST

I have already indicated that, in the Tremco organization at least, the function of the psychologist is no longer regarded as merely that of developing tests. I have suggested some of the other ways in which Dr. Ohmann has aided us. Let me outline, in somewhat greater detail, some of these other contributions.

One of his principal functions has been the development and education of our assistant sales managers in the technique of selecting salesmen. This has been accomplished by participating in our sales management conferences; by spending time with our assistant sales managers in the field to demonstrate interviewing techniques which have enabled them to obtain new types of information about applicants, and by discussing the favorable and unfavorable qualities of applicants whom they have both interviewed.

Another valuable contribution has been an improvement in our methods of selecting salesmen by the development of new tools and the improvement of old ones. These include the evolution of a Personal History Record Form in which a weighting of items makes it possible to focus attention upon applicants scoring below critical levels. Another useful tool which has been developed is an improved Interview Rating Form, which gives the interviewer a clear and organized impression of the applicant's qualifications, for study and evaluation after the interview. Another tool is an outline to be followed when interviewing applicants, especially designed to detect and evaluate their motivation, interest, work habits, and emotional make-up.

We are continuing our efforts to develop a reliable test for selling ability, which we hope will be an additional aid to improved selection. A series of questions has been developed and is being administered to new sales applicants. As soon as enough of these tests have been given to new salesmen who have subsequently established a record of employment in our organization, test scores will be correlated with job success criteria, and items which are found to show such correlation will be used in tests administered in subsequent employment.

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By this time it will have become apparent that our entire employment procedure is really a test in which successive hurdles must be passed if the applicant is to qualify, beginning with the specific questions asked in the interview, through the rating of the Personal History Record, and the evaluation of the Interview Rating Form, to the final evaluation in the concluding interview.

IMPROVEMENT OF TRAINING PROCEDURE

Another advantage we have derived from employment of a psychologist has been an improvement of our training program and training techniques. We have come to consider training as an integral part of the problem of employment, since the most capable sales applicant may fail on the job if the training program is not well planned and executed.

Our training program is a long and expensive procedure. We conduct a series of intensive factory training schools of one week each. Each of these factory schools deals with one phase of our business—for example, interior wall maintenance sales. Each factory school course is followed immediately by field training contacts under the direction of an assistant sales manager. Field training contacts become less and less frequent as the salesman develops skill. The exact objective and procedure for each school, and for each field training contact, are determined in advance. After each field contact, the salesman's progress and reactions to training are reported on forms especially designed to make this task easier and more effective. In the development of the field contact report forms, in the development of our factory training curriculum, and in all the training steps, the psychologist, because of his knowledge of pedagogy and his familiarity with experiments in various methods of education, has helped us greatly to improve the effectiveness of our procedures.

CONCLUSIONS

In reviewing our experience in employing a psychologist on a part-time consulting basis, the following conclusions may deserve some emphasis:

1. It is a mistake to believe that a satisfactory solution to your problems of selecting salesmen will be found by employing a psychologist and shifting such problems on his shoulders. A psychologist can help to improve the methods and technique of selection, training and development of salesmen, but he can only *assist* as a technical adviser working with the sales management staff at headquarters and in the field; it is the staff that must, in the final analysis, assume the real burden of determining company policy and of winning the wholehearted cooperation of the entire field force to that policy.

2. Ready-made tests in general do not constitute an answer to the problem of the selection of salesmen. If standardized tests are to be used, they must be tried out and evaluated under the particular company's conditions.

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3. The selection of salesmen is only one phase of the problem of developing a sales organization. Any improvement or change which is made in methods of selection should be followed up by a study of and a tying-in of the problems and methods of training, development and supervision.

4. And, finally, the personnel problems of sales management are *never* solved. They are continuing, and are expanding constantly. It is therefore necessary to regard research dealing with sales personnel problems as a *continuing* function. Most companies view research in other phases of their business, such as in the improvement of product, as a continuing function. It is a natural assumption that there will always be room for improvement in the methods of dealing with sales personnel problems. The value of the psychological consultant's services *increases* as he learns more about the business of the organization he is serving. A short-time program of psychological assistance does not, therefore, seem to be sound business procedure.

Expressing our own point of view, we believe in general that we've made progress—but only a beginning—in the solution of these problems.

* * * * * *

Question: Mr. Treuhaft, I understand that your salesmen are commission salesmen. Do you find it necessary to invest much money in them during their training period?

Mr. Treuhaft: When we employ them, after they have completed the factory training school course, they are sent out into the field, and we make advances to them from the beginning. We subsidize them as they go along rather liberally, depending on the progress they make. Eventually they must stand on their own feet, although we have carried men for as long a period as a year before we made them stand on their own feet entirely. In some cases it has been even longer than that. But when they are on their own, they are expected to carry themselves—although we do give them drawing accounts and advances.

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RESEARCH ON THE SELECTION OF SALESMEN AT THE TREMCO MANUFACTURING CO.

By O. A. OHMANN
Consulting Psychologist
The Tremco Manufacturing Co.

IT is my function here to outline briefly some of the experimental approaches we have made to the problem of selecting salesmen at the Tremco Manufacturing Company, and to indicate the degree of success or failure we have had with the things we have tried.

The psychologist does not have a ready-made bag of tricks which need only to be applied to solve any company's problems of selection. It is usually a matter of digging out facts in each particular company. We have tried to find the answer to several questions at Tremco.

YARDSTICK OF PERFORMANCE

1. The first thing we asked ourselves was: Can we measure degrees of success of our salesmen quantitatively? Of various measures of performance which are available which is the best yardstick of a man's value?

This may seem like too simple and obvious a question to raise. The answer would naturally be "the amount of his sales." But, in a study of a sales force recently undertaken, one of my associates found that it was practically impossible to tell from the records that were available who was a good salesman and who was not. Sales were determined by many factors such as advertising, territory differences, jobber connections, etc. There is no use trying to do a scientific job of testing unless we are certain that satisfactory criteria of job performance can be set up.

We made a study of all the men who had been with the company for more than two years. Fourteen different measures of job performance were intercorrelated and evaluated statistically. We found that "annual commission earnings of the salesmen" was the best single yardstick.

As is often the case, this research on criteria of success yielded a number of incidental findings which were interesting and useful. For example, the number of years a salesman had worked was not significantly related to earnings; in our business the fellow who sells the largest orders on the average is not the most successful; among these older salesmen there was a tendency for those who make fewer calls to sell more goods; there is very little fluctuation in the relative standing of salesmen from year to year; the record of a man

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at the end of the first six months is a fairly good indication of the degree of his later success.

This research then assured us that we have a yardstick of performance of salesmen which is reliable, and fair to both the company and the salesmen. We were now ready to study the characteristics of men at various levels of success as measured by this criterion.

CHARACTERISTICS

2. We next asked ourselves: "What are the differences between the successful and unsuccessful men in personal characteristics, experience, background, and training?"

Tremco, like nearly every other company, had for years been collecting a lot of personal history information on newly employed salesmen by means of an application blank. Statistics on "weight," for example, had been collected, but no systematic check had ever been made to determine whether the heavy, light, or average weight person made the best salesman. We determined to find out if any of the items of information given by the men at the time of employment would have differentiated between the men who were now making good and those who were not.

The four-page application blank contained 31 items. Each of these items was compared with the later success of a group of 48 salesmen who had established a record of at least two years with the company. Of the 31 items, 6 were thrown out because they could not be scored objectively, 12 items did not differentiate between good and poor salesmen, while the 13 remaining items were found to differentiate effectively. These 13 valid items were the following:

Age: the best men were under 40 years when employed, the poorest were 40-44 at the time of employment.

Height: the taller they were the better their chances of success.

Marital status: married men are more successful than those who are single or divorced.

Number of dependents: one dependent is best, two is fairly good, none or more than three is unfavorable.

Number of thousands of life insurance: five thousand or more is favorable, one to five thousand is unfavorable.

Debts: those who admitted having current debts are more successful than those who either have no debts or have more than $500.

Years of education: those who have completed the 8th grade, high school or college are all about equally successful. Those who interrupt their education at any other point and fail to complete one of these traditional units are definitely less successful.

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Number of clubs and organizations: those who listed either none or two are more successful than those who listed three or more.

Years on the last job: from one to 10 years the longer they were on the last job the better, but more than 10 years is unfavorable.

Experience in the building maintenance line: some previous experience is better than none, but the number of years is not significant.

Average number of years on all previous jobs: up to 10 years, the longer the better.

Average monthly earnings on last job: $200-$250 is best, while $250-$350 is least favorable.

Reasons for leaving the last job: men who were still employed at the time they negotiated with Tremco are by far the best risks; those who lost their jobs through circumstances beyond their control rank next best; those who left their previous job because of friction or mistreatment are significantly less successful.

Each of these 13 personal history items has now been given a weight in proportion to its value in differentiating success and failure on the job. In this way a total score is obtained for an applicant. These total personal history scores were correlated with annual commission earnings of the salesmen and yielded a coefficient of .62. Applicants whose total score is less than 64 are now eliminated from further consideration, unless there are other special compensating factors to be taken into account. It should be remembered however, that the 13 items mentioned above and the scoring weights which we have assigned to them apply only to the experience of the Tremco Manufacturing Company, and might be very misleading if interpreted in the same way by other firms.

ESSENTIAL QUALIFICATIONS

3. We next tried to determine what other qualities (in addition to the personal characteristics entered on the application blank) would be required for success in our line of business. Merely to set down a long list of admirable traits that every salesman should possess is not meeting this problem. An essential trait must be defined in terms of what the salesman actually does on the job. We tried to determine differences in methods of work between successful and failing salesmen. Such pertinent information was obtained primarily from:

(a) time spent in the field observing good and poor salesmen on the job
(b) case analyses of the reasons for outstanding success of some men and the failure of others
(c) intensive clinical interviews by the psychologist of all newly employed salesmen, for later correlation with job performance.

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This study resulted in the setting up of the following tentative list of qualifications for Tremco salesmen:

(1) Capacity for day-after-day plugging
(2) Money-mindedness, order-consciousness
(3) Capacity for social and emotional adjustment
(4) Capacity for intelligent planning of his work
(5) Practical maintenance sense
(6) Singleness of purpose in life, well-channeled motivation, absence of many diverting interests
(7) Financial position—need, but no financial tangles
(8) Physical energy and vitality
(9) Articulation—ability to think clearly and express his ideas simply and convincingly
(10) Honesty, reliability (to be judged from a commercial credit report rather than from the interview).

It is easy to say that we need certain qualities in salesmen, but it is quite another thing to discover ways of judging these traits in the applicant by means of interviewing technique. What kinds of factual information must be obtained from the applicant as a basis for judging these traits? And how can these facts be drawn out in the course of an interview? Such an interview must be carefully planned in advance and yet proceed in a casual and natural manner.

PROCEDURE OF EMPLOYMENT INTERVIEW

A detailed outline for an interview was therefore developed. This outline contained 140 suggested questions, covering eight principal areas of investigation, and a method for leading naturally from one topic to another. The interview begins with a systematic review of the applicant's job experience (beginning with his last job and working back to his school years); then his educational history from college to elementary school is covered; then follows a transition to questions about his family background and relationships, attitudes in the home toward work, money, and discipline; this is followed by questions about his domestic and financial situation, and his reaction to the Tremco proposition. This interview differs from the usual procedure primarily in that it includes an intensive inquiry into early childhood work habits, social relationships, and personality make-up. We find that deficiencies in work habits and character are more likely to show up in this connection than when he is talking about his recent job experience, where he will be more on his guard.

After following this interview procedure the applicant is rated on each of the 10 qualifications listed above. An interview rating chart was developed which defines each of these qualities in terms of specific information which

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should have been obtained in the interview. We feel that these interview and rating methods are indispensable techniques in the selection of salesmen, since there are at present no satisfactory psychological tests for evaluating these subjective personality and character traits in the employment situation.

ATTEMPTS TO MEASURE NECESSARY ABILITIES

4. Having evaluated the applicant's personal history characteristics, and rated essential character and personality traits, are there other necessary intellectual or social abilities which can be measured by objective psychological tests? A test is really a work-sample given under standard conditions. The assumption is that performance on the work-sample will predict performance on the actual job.

The company's early disappointing experience with the use of tests of intellectual functions has already been described by Mr. Treuhaft. We are now giving the Bernreuter Personality Test and the Strong Vocational Interest Blank to all newly employed salesmen on an experimental basis. These tests records are being accumulated until we have given enough tests and until the men to whom they were given have established a work record with us. We shall then determine whether the tests correlate with job success. Preliminary indications are that the personality test will not differentiate between successful and unsuccessful salesmen. We are much more hopeful that the interest test will prove to be useful in our situation.

In order to measure certain aspects of the Tremco sales job which could not be judged very well in the employment interviews, we have devised "The Tremco Test." The first part of this test describes difficult sales situations and asks the applicant how he would meet each of these. The second part consists of a series of verbal and pictorial descriptions of building maintenance problems which are intended to measure the applicant's practical maintenance sense. The third part consists of arithmetic calculations of the cost of doing certain building repair work.

We have administered this test to a group of college men and to a group of Tremco salesmen. The test differentiates reliably between these two groups. We are at present giving this test to all applicants who are being seriously considered in the final elimination for employment. The scores are, however, not being used as a basis for selection. When these new salesmen have established a work record the test will be statistically evaluated. If the test is found to have predictive value it will be used as a selection tool.

GENERAL CONCLUSIONS

I have indicated the general nature of the approaches we are making to the problem of improving methods of selecting salesmen. Perhaps it would

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be in place to make a few general conclusions. Our experience has shown us that there is no substitute for research if we are to improve our methods of selecting and training salesmen. Good judgment and sound practice must be based on accurate factual information about the nature of the sales job and the operational practices of the men on that job. On simple factory or office jobs it may be possible for the psychologist to come in with ready-made tests and do a fair job of selection. For sales or executive work, however, it is usually necessary to develop procedures and instruments which are adapted to a particular company's needs. We have also found that this research must be a long-range, continuing program. This is particularly essential in a small organization where the number of workers on any given job will be limited and where it will require a period of time to accumulate enough case records to permit statistical analysis. Such a long-range research program also implies close cooperation between the management and the psychologist, so that new findings may be put into operation and then re-evaluated at a later date. The progress we are making at Tremco is due in large measure to this last ingredient in personnel research—cooperation.

* * * * * *

Question: Is there some organization or laboratory to which we can turn, that can tell us definitely by testing whether we can distinguish between the objective and the subjective type; and whether we can tell if a prospective salesman rates high on creative imagination, structural visualization and that sort of thing?

Dr. Ohmann: There is an association of psychologists known as the American Association for Applied Psychology. I think perhaps if you are seeking help on some technical problem in this field it would be well to consult such a directory, since the members are pretty carefully selected with reference to professional training and qualifications. There are a number of private institutions that render consulting service of this sort, but I think perhaps the best suggestion would be that you consult the directory of the American Association for Applied Psychology.

Question: Will you elaborate on the alleged fixedness of personal history items?

Dr. Ohmann: It is true that some of the personal history items change. Our studies, of course, are made on the information given at the time of employment, and I think the point that was brought out in the subsequent discus-

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sion, that one must be cautious not to assume that the weights which we have obtained would apply to other companies, or necessarily even to other companies in the same line of business, should be kept in mind. The findings on the number of dependents, for instance, merely mean that the experience of our company shows that over the last 12 years men who came in with a certain number of dependents—more than three, for example—seem not to do as well. Just why that should be true is a question on which we have not tried to speculate.

The only real answer to the question is to test, in your particular company, the interests and abilities of men as they are employed. If you find a correlation between these measurements and later job success then these tests may be used as predictors. If no correlation is found, the tests should not be used in employment.

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GETTING RESULTS FROM A PROGRAM OF TESTING FOR SALES ABILITY

By MORRIS S. VITELES
Philadelphia Electric Company

ACCORDING to one school of historians, the essentially significant details of an era are to be found not in the records of its great battles and great reforms, or in the approved, formal biographies of its military and political leaders, but in the plays, the essays, the dramas, the novels and in the word-of-mouth stories—yes, even the bawdy ones—told during the period.

While perhaps not agreeing fully with this *major* emphasis upon literature and conversation as a source of historical material, I am in sympathy with the viewpoint that much concerning the actual role of a person or an event or a movement is to be found in the stories about each which appeal to the man on the street. For this reason, as an industrial psychologist, I find something of interest and significance in the comments on psychology and psychologists appearing in a series of articles originally published in *Punch* and later brought together in a book entitled *How to Run a Bassoon Factory*, with the subtitle *Business Explained*.

THE BUSINESS MAN LOOKS AT THE PSYCHOLOGIST

The author of this book points out that: "A hundred years ago our fathers had to manage without psychologies at all. Even thirty years ago they were the privilege of a very few. But nowadays with our cheap methods of production they are to be found in every home."

THE AUTHOR Dr. Morris S. Viteles is Director of Personnel Research and Training, Philadelphia Electric Company, and Professor of Psychology at the University of Pennsylvania. His work has placed him in the leading ranks of American psychologists. He is the author of numerous articles in technical and popular journals dealing with the most effective use of manpower in industry. His text, *Industrial Psychology*, has been described as the most authoritative volume in this field. He is also the author of *The Science of Work*, which tells in popular terms how psychology is applied in making work a happier and more productive activity.

As consulting psychologist for The Milwaukee Electric Railway and Light Company, Dr. Viteles developed the first practical test for the selection of motor vehicle operators. This is now being used by a number of street railways and taxicab companies in hiring motormen, taxicab drivers, etc. As Director of Personnel Research and Training for the Philadelphia Electric Company, and as consultant for other organizations, Dr. Viteles has designed tests for examining electric substation operators, overhead linemen, office workers, meter readers, sales personnel, etc. In addition, he has played an important role in the development of an extensive program of systematic job training of employees in various types of jobs. Among these training courses is an extended program of supervisory training.

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Addressing himself specifically to the business man, the author goes on to say: "As a modern business man, it is most important for you to realize that your workers want psychologies of their own and to see that they get really first-class chromium-plated ones, with cavity walls. That was why, somewhat earlier on, I placed a psychologist high on the list of Experts You Can't Do Without. It is essential to have a man in the place whose expert knowledge tells him that workers are Human Beings, Not Machines. The old chap with whiskers who glues the bits of kid on the bassoon keys—he isn't a machine, really he isn't. So don't let your maintenance engineer oil him, and don't think if he breaks down you can just fit a spare part. He is like the author of *Pagliacci*—'a man with a heart like you'—and he can probably be depended upon to keep himself well-oiled. So just keep him bright and healthy, change his water every day, and have a psychologist to deal with his soul."

In discussing the functions of the psychologist, emphasis is naturally placed upon the selection of personnel. "Clearly," says the brilliant author of this manual for business leaders, "if you want a man to stand and look at a machine, and you take on a man who is

(a) Blind, or

(b) Incapable of looking at a machine,

then the machine won't be looked at, which will Decrease Efficiency. If, however, you use Scientific Method, your psychologist will select a man who

(a) Isn't blind, or

(b) Loves standing and looking at machines.

The machine will thus be looked at and this will Increase Efficiency.

"The technique of scientific selection," it is added, "is something like this:

"(a) You take your applicant and place before him an Unfamiliar Piece of Prose. If he can read it, he isn't blind. If he can't read it, he is either blind or can't read, in either of which cases he is Unsuitable.

"(b) If he gets through this test satisfactorily, you take him along, place him in front of a machine, and tell him to look at it. If, when you come back an hour later, he is still looking at it, he is Suitable. If, on the other hand, he has stopped looking at it, note what he has begun to do. The following list shows how this may help you to fit him into an appropriate job:

If he is:	Then he is more suitable for:
Asleep	Night watchman
Reading the paper	Director or President of the company
Writing a letter	Clerical post
Looking at the girl on the next machine	Travelling Salesman"*[1]

* Or, according to the author, Personnel Department.

[1] Spade, Mark. *How to Run a Bassoon Factory, or Business Explained,* Hamish Hamilton, London, 1934, pp. 54, 57, 58.

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I recall that my first reaction upon reading the material cited was one of resentment at what appeared to be an attack upon the dignity of psychology and of the professional psychologist. However, I was quick to recognize that, in fact, this bit of satire gives a fairly close approximation of what the ordinary, practical business man frequently thinks of psychology and of the psychologist. Beneath this good-natured gibing lies a keen appreciation of the essential skepticism concerning the use of psychological methods which has seriously hampered the extension of psychological research and practice in industry and business.

PSYCHOLOGY AND MAGIC

As the years have gone by, I have come more and more to the opinion that such skepticism represents an essentially healthy condition, to the extent that it forces the professional psychologist to work within a sound pattern of real accomplishment in preparing the tools and techniques which he brings to the aid of business. As a matter of fact, such skepticism is to be preferred to the equally common belief that the psychologist has some mysterious power to penetrate the secrets of the individual's occupational abilities through the use of magic formulae which make it unnecessary to expend time, effort and money in order to get results.

The one fact which stands out as I review recent work in testing sales aptitude is that, while results can be obtained, they can be procured only when both the business man and the psychologist are willing to make an adequate investment of energy, time and funds. Where psychologists have carried on thorough and continuous research, substantial, although not spectacular, results have been obtained in the way of increasing the probabilities of selecting successful salesmen. No "short-cut" and "sure-fire" devices are in sight. However, there is reason for confident belief that long-run, continued research, under competent direction, will result in better prediction of sales success than can be obtained through the use of traditional methods.[2]

PROGRESS IN IMPROVING THE SELECTION OF SALESMEN

From a consideration of programs based on such research, as well as of less effective programs, it is possible to draw the following conclusions with respect to the merit of various psychological methods now available for testing sales ability, and with respect to the pitfalls to be avoided in working out productive and practical testing programs:

1. ***A prediction score, calculated by weighting specific items of information obtained from an application or personal information blank,***

[2] Kornhauser, A. W., and Schultz, R. S. "Research on Selection of Salesmen," *Journal of Applied Psychology*, February, 1941, pp. 1-5.

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such as age, marital status, number of dependents, status in organization, etc., continues to be the most promising instrument for the selection of salesmen.

The value of this method in selecting life insurance salesmen was demonstrated 15 years ago in the experience of the Phoenix Mutual Life Insurance Company. This company found that the use, in hiring, of an application score obtained by weighting 11 items was followed by a marked increase in sales and in the stability of those employed.[3] In 1919, 56 out of every 100 salesmen employed failed to last out the first year. In 1921-22, when the new plan was fairly operating, only 42 out of every 100 salesmen failed to remain one year. Between 1922 and 1925, this figure had been further reduced to 30 out of every 100. Moreover, whereas in 1912 the Phoenix Mutual Life Insurance Company employed 1,700 salesmen to sell insurance to the value of $20,500,000 in 1923, under the new plan, 375 salesmen had sold insurance to the value of $52,000,000. The same company has within the past few years reviewed the experience of all salesmen who were under contract in regular agencies from 1927 to 1935* and has developed a promising revision of the original scoring methods applying to various age levels.[4]

Recent studies by the Life Insurance Sales Research Bureau also show that a prediction scale based on personal history items can be used to improve the selection program.[5] Through an analysis of data on 10,111 men contracted as full-time agents during 1933, 1934 and 1935, by 11 companies, a scoring system for 10 items** was found to give good prediction in terms of:

(1) *whether or not the agent would remain under contract for 12 months;*
(2) *whether or not the agent would remain under contract for 24 months;*
(3) *paid-for production during the first 12 months* (for agents who remained in the business that long);
(4) *paid for production during the first 24 months* (for agents who remained in the business that long).

Applying the scale to 408 agents contracted by one company and still in service at the end of one year, it was found that those classified as Excellent produced one and one-half times as much as the average for the whole group, and three times as much as agents classified as Poor. Of agents rated as Excellent, there were twice as many who stayed in the business at least one year as there were among those who rated Poor. Using a reasonably high first-year production as a standard for success, the study showed that a man classified as

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[3] Russell, W. V., and Cope, G. V. "A Method of Rating the History and Achievements of Applicants," *Public Personnel Studies,* 1925, 3, 202-19.

[4] *Selecting Successful Salesmen,* The Phoenix Mutual Life Insurance Company, Hartford, Conn., 1937, 21 pp.

[5] *Rating Prospective Agents,* Life Insurance Sales Research Bureau, 1937, 16 pp.

* With the assistance of the staff of the Life Insurance Sales Research Bureau.

** Dependents, occupations, employment status, time with present employer, present membership in organizations, officer in how many organizations, net worth, minimum current living expenses, amount of life insurance owned, length of negotiations.

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Excellent is 16 times as likely to be among the successful agents as one classified as Poor on the basis of the personal history rating.

Convincing evidence of the value of scores obtained by weighting personal history items is also found in the reports of a group of investigators in Chicago, including Kornhauser,[6] McMurry,[7] Kurtz[8] and others who, since 1932, have been carrying on a continuous, intensive program of research in the selection of salesmen. My work in the selection of taxicab drivers for the Yellow Cab Company of Philadelphia shows that a weighted application score, constructed on an experimental basis, represents an effective way of testing sales ability on this job.[9] Research at the Tremco Manufacturing Company,[10] reported at this meeting, indicates that weighted application scores contribute to the selection of men who are successful in selling materials used in building construction and maintenance.

In general, it appears that the relatively simple device of determining experimentally the significance of marital status, number of dependents, organization affiliation, and so on, to sales accomplishment has withstood the test of time better than any other single method employed in predicting sales achievement. Although it is highly improbable that the specific items and weights found useful in reported studies will be valid for all types of selling, it is quite likely that if suitable steps were taken in deriving and validating personal history scores, equally good results could be obtained in the prediction of selling ability in many fields thus far untouched in experimental work.

2. ***There is an accumulation of evidence that personality has an important bearing on the success of a salesman and that personality tests may contribute to the selection of competent salesmen.*** However, it also appears that standard tests of personality available on the market are not the best—or even particularly good—instruments for measuring the personality qualifications of salesmen. Dodge,[11] for example, gave the Bernreuter Personality Inventory to 75 salespeople from a large department store. The results confirmed the tendency noted in other studies for salespeople to score high in *social dominance*, but no useful correlations were found between such scores and sales success, and none of the other Bernreuter scores showed any greater promise of differentiating between good and poor salespeople. However, an item analysis of the personal inventory made it possible to use 62 of the Bernreuter items in setting up a scoring system which differentiated the 18 best salespeople from the 15 poorest without overlapping. Further refinement

[6] Kornhauser, A. W. *Report on the Bureau's Selection Tests for Life Insurance Salesmen—1932-38* (unpublished report).

[7] McMurry, R. N. "A Scientific Procedure for the Selection of Salesmen," PERSONNEL, May, 1939, pp. 165-183.

[8] Kurtz, A. K. "Recent Research in the Selection of Life Insurance Salesmen," *The Journal of Applied Psychology*, February, 1941, pp. 11-17.

[9] Viteles, M. S. *Industrial Psychology*, W. W. Norton & Co., New York, 1932, pp. 182-185.

[10] Ohmann, O. A. "A Report of Research on the Selection of Salesmen at the Tremco Manufacturing Company," *The Journal of Applied Psychology*, February, 1941, pp. 18-29.

[11] Dodge, A. F. "Social Dominance and Sales Personality," *The Journal of Applied Psychology*, 1938, 22, 132 ff.

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has recently led to the reduction to 41 of the items to be used in distinguishing between better and poorer salespeople.[12]

AN EXPERIMENT WITH THE HUMM-WADSWORTH TEMPERAMENT SCALE

A personality test which has recently received a great deal of favorable attention is the Humm-Wadsworth Temperament Scale. This scale is described as being particularly useful in the elimination of "trouble makers" and of other undesirable employees in all occupations. I have been provided with a model profile indicating the ranges of scores on the various components of this test within which salesmen have been found acceptable. These ranges, it is stated, were experimentally established by a study of 32 "million-dollar men" and 68 salesmen with less than $75,000 annual business employed by the Equitable Life Assurance Society. The ranges were further verified on 300 Coca Cola truck salesmen, 250 neon-light salesmen, and 700 laundry routemen.

It is further stated by Humm that "because of the qualitative interpretations we are able to make with the Temperament Scale, we are able to secure a better selection of salesmen by eliminating the individuals who, while they may have the skills necessary to sell, do not have the necessary qualities of temperament to apply those skills in the best manner."[13]

While disinclined to evaluate the qualitative aspects of this scale, largely because of the looseness with which these aspects are treated in the literature,* I have recently attempted to evaluate scores in quantitative terms with respect to the performance of 59 appliance salesmen, known as Home Service Representatives, employed by the Philadelphia Electric Company. These men, hired between November 2, 1939, and March 4, 1940, were pre-selected, as is apparently Humm's practice, on the basis of physical fitness, intelligence, and other factors uncovered in the interview. The Humm-Wadsworth scores were not used for selection but were merely filed for follow-up purposes.

Home Service Representatives hired by the Philadelphia Electric Company are required to spend a period of time on door-to-door selling of selected small appliances. The man who meets the sales quota in this activity is then transferred to the regular force and assigned to a territory to sell all the appliances merchandised by the Philadelphia Electric Company. Whether or not the new employee met the sales quota and was transferred from the "try-out"

[12] Dodge, A. F. "What Are the Personality Traits of the Successful Sales Person?", *The Journal of Applied Psychology*, 1938, 229-238.

[13] From a letter by D. C. Humm, dated April 4, 1941.

* Apart from the theoretical consideration involved in the qualitative analysis of Humm-Wadsworth Temperament Scale scores, there is the very practical problem, referred to by Dr. Marion A. Bills elsewhere in this publication, of attempting to interpret the thousands of "qualitative patterns" produced by the interrelations of seven scores on each of the seven components of the Humm-Wadsworth test. Unintentional errors readily find their way into the interpretation of such patterns. Discussing the work of the Aetna Life Insurance Company, Dr. Bills points out that, as efforts were made to use qualitative patterns in connection with the hiring of salesmen, the personnel group found it possible to make almost any picture fit the pattern. "We felt," Dr. Bills states, "as we analyzed this test that it was altogether too easy to make a shift in the interpretation and that we did not dare to use profiles because we realized that we would be fooling ourselves and telling ourselves that we were fitting the picture when we were only making shifts in the profile after we knew the picture."

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or "training gang" to the regular sales force was used as one criterion of performance in this study. The second criterion used in this study was whether the new employee, transferred to regular work as a Home Service Representative (appliance salesman), remained with the Merchandise Sales Department for more than six months subsequent to transfer. The outstanding reason for resignation or termination as an appliance salesman is failure to meet the sales quota established for the salesman's territory by the Merchandise Sales Department. Only in a few instances is separation from the service due to other causes.

The authors of the Temperament Scale have provided two distinct scores—a so-called "log score" and a so-called "combination score." In each case certain of the scores are considered "valid," others as of "doubtful validity," and still others as "invalid" because of an assumed distortion of responses by the applicant in answering the questions included in the scale. In addition, rather definite scale criteria are set up for distinguishing between "*employables*" and the less desirable group of "*unemployables*" whose mental health makes them poor employment risks.[14]

The complete findings of the study cannot be cited here. However, it is interesting to note that, applying the method of "log scoring," only 20 of the 59 appliance salesmen could be rated as being both *employable* and having *valid* test scores. Of these, 60 per cent were terminated or resigned before transfer from the "try-out gang" and 35 per cent were assigned to territories in the Home Service group and continued in employment for six months or more. Of the 12 men with *valid* test scores rated as *unemployable* by the "log-scoring" method, presumably because they were mentally maladjusted and potential "trouble makers," 59 per cent were terminated or resigned before promotion to the regular force and 33 per cent were promoted and remained in the appliance sales group for more than six months. It is apparent that "log scores" differentiating between *employables* and *unemployables* are not useful in predicting which men will be found satisfactory by the Merchandise Sales Department.

When the "combination-scoring" method is applied, the situation becomes even worse, inasmuch as, of 31 *employable* men with *valid* scores, 71 per cent were terminated or resigned during the period of training in the "try-out gang" and 23 per cent continued as Home Service Representatives (appliance salesmen) for more than six months. On the other hand, of 16 men with *valid* scores rated as *unemployable*, only 50 per cent were terminated or resigned from the "try-out gang" and 44 per cent remained in the Merchandise Sales Department for more than six months.

[14] Humm, D., and Wadsworth, G. W., Jr. "The Humm-Wadsworth Temperament Scale," *American Journal of Psychology*, 1935, 92, 163-200.
Humm, D., Storment, R. C., and Iorns, M. E. "Combination Scores for the Humm-Wadsworth Temperament Scale," *Journal of Psychology*, 1939, 7, 227-253.

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Thus far the discussion has been limited to the question of general employability, upon which much emphasis has been placed by the authors of the Humm-Wadsworth Temperament Scale. Using log scores, it was found that only seven men obtained valid profiles within the ranges of those recommended for the selection of salesmen. Of these, one resigned and 4 were terminated during the training and try-out period. Only two were promoted and remained in the Merchandise Sales Department for more than six months. Moreover, it is interesting to note that, of these seven men, two obtained scores which placed them in the "unemployable" class on the basis of the Humm-Wadsworth classification. Of the latter, one failed of promotion to the appliance sales group and one was promoted and has been in the group for more than six months.

The profile recommended for the selection of salesmen is essentially one which requires that the applicant be rated as "moderately strong" or "strong" on the *normal* component, "strong" or "very strong" on the *manic* component of the test, and borderline or below on the *autistic* component. However, preliminary analysis shows no significant differences in component scores between the 20 men who were successful, in that they remained in the Merchandise Sales Department for more than six months, and those who were unsuccessful in this respect. As a matter of fact, the only indication of a possible difference is to be found in the higher score of the unsuccessful group on the *manic* component—on which, according to the authors of the scale, successful salesmen should rate high.

This study is only one of a number which leads to the conclusion that *standard tests of personality offered for sale by test publishers do not necessarily make good measures of sales personality. If personality is to be measured, it can be done to advantage only through a careful analysis of appropriate items and the choice of those which by experiment are proved to have value in the selection of the particular kind of salesmen in which the investigator is interested.* The practice of merely picking up a personality test which looks as though it may be useful or even one which has been successfully employed by another firm seldom, if ever, produces results in predicting success in selling.

AN ILLUSTRATION OF SOUND PRACTICE IN THE DEVELOPMENT OF SELECTION TESTS

What must be done to achieve effective results is well illustrated in a series of studies conducted by Kornhauser in preparing a test of personality characteristics for the Life Insurance Sales Research Bureau. This work has involved the experimental analysis of eight sub-tests, including about 500 items, intended to measure various aspects of personality. According to Kornhauser:

> "The essential question guiding this study from the outset was this: Can we find simple, practical methods of personality measurement which may be successfully used to separate the men who will succeed in selling life

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insurance from those who will fail? Can we improve, that is, upon the success with which men are now selected?

"A number of studies aimed at answering this same question have been conducted in the past—with results not good enough to be immediately useful, but not bad enough to be discouraging. Their greatest weakness has been that they stopped too soon. Rarely has a study been carried far enough to *demonstrate* the value, or lack of value, of the tests. We were determined, in the present undertaking, to follow through—to experiment and check until it would be clear just what the tests can accomplish and what they should not be expected to accomplish.

"In general, our procedure has been to try the tests on established agents first, to see if differences appeared in the test performance of successful and of unsuccessful men. The tests which yielded favorable results were revised and tried again on other groups of men in the business; the tests which showed no ability to discriminate between good and poor salesmen were discarded. At each stage, moreover, not only the test as a whole but each individual item in every part of the test was studied statistically and then retained, rejected, or revised in the light of the results it had produced. The final and indispensable experiment was to apply the tests which had operated successfully among established agents, to new men at the time they were brought into the agency."[15]

From 1932 to 1935, the research was confined to testing approximately 1,000 agents, already in the life insurance business, whose records as agents were known. An analysis of the results showed that only four of the sub-tests, including approximately 150 items, discriminated between successful and unsuccessful agents.[16]

During 1936, 1937 and 1938, the revised test, designated as a Personnel Blank, was tried out under field conditions on approximately 1,450 new employees hired without regard to test results by sales managers of 24 life insurance companies. Careful studies made of the progress of those new men who worked as full-time agents under standard conditions, for whom adequate performance records could be obtained,* has led to the conclusion that the Personnel Blank "adds significantly to the ability to predict the future success of new agents," although it "falls short of eliminating all potential failures" and, as a matter of fact, of meeting the expectations which are aroused in reading the optimistic notices about personality tests in the advertising literature of those who sell them.

An interesting finding of this series of studies is that the personality test predictions are less effective than the Life Insurance Sales Research Bureau Prediction Scale calculated by weighting personal history blank items. At the same time, evidence is available that a combination of scores on the Prediction

[15] Kornhauser, A. W. *Report on the Bureau's Selection Tests for Life Insurance Salesmen—1932-38*, pp. 1-2 (unpublished).

[16] For a description of these sub-tests, see McMurry, R. N., op. cit., pp. 173-175.

* The records of approximately 850 new employees could not, for various reasons, be used in the follow-up study.

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Scale and on the test of personality characteristics into an Aptitude Index for Life Insurance Salesmen* gives somewhat better and more dependable results than either procedure alone, especially when the two are weighted differently for the age groups 25 and younger and 26 and above, respectively. Using a combined criterion of sales record and survival rate, the performance of new men rated as A (Excellent) on the basis of the Aptitude Index reaches the 200 per cent level, as contrasted with the group average of 100 per cent, while the performance of new employees rated as D or E (Fair or Poor) on the basis of the Aptitude Index proves to be at approximately the 40 per cent level.[17]

Studies by the Chicago group in other sales fields involving personal history scores and personality tests[18] have produced somewhat similar findings. In general, the evidence supports the conclusion, stated in the introduction to this section, that carefully devised personality tests will contribute to the selection of competent salesmen. The same evidence shows that, in order to get results, the choice of such tests must be based on long-time, continuous research.

3. ***While personal history ratings and personality tests have so far given most consistently favorable results in hiring sales personnel, there is evidence that interest inventories and standardized interviews represent promising tools for further research in this field.*** As a matter of fact, interest items are included in "tailor-made" personality scales. Moreover, findings of the type reported by Bills[19] and Strong[20] clearly indicate the desirability of further investigation in this field.

For example, in a study on the relation between scores on the Strong Vocational Interest Blank and success in selling, data were collected from several life insurance companies using this interest inventory in selecting salesmen. Successful life insurance agents scored higher in life insurance interest than unsuccessful agents and than men in general. Though many men with low life-insurance interest scores entered the business, few remained in it and still fewer wrote a satisfactory volume.

It was also found that 85 per cent of agents with an A interest rating wrote $100,000 or more of insurance a year, in contrast to 51 per cent of B plus men, 44 per cent of B men, 25 per cent of C men. In terms of an average volume of paid-for insurance of $150,000, 67 per cent of A men were successful, in contrast to 43 per cent of B plus men, 21 per cent of B men, and 6 per cent of C men. These data are interpreted by Strong as indicating the fact of

[17] Kurtz, A. K., op. cit., pp. 15-17.

[18] See McMurry, R. N., op. cit.

[19] Bills, M. A. "Relation of Scores on Strong's Interest Analysis Blanks to Success in Selling Casualty Insurance," *The Journal of Applied Psychology*, 1938, 22, 97-104.

[20] Strong, E. K. "Interests and Sales Ability," *Personnel Journal;* 1934, 13, 204-216.

* Adopted by over 70 of the 106 life insurance companies that are members of the Life Insurance Sales Research Bureau.

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genuine relationship between interest and ability, but are described as inadequate for determining the exact degree of relationship.[21]

Evidence on the value of improved interviews is not so clear as that applying to interest inventories. However, results reported by McMurry[22] and Ohmann[23] make it clear that this technique should not be neglected in a comprehensive program for improving prediction in selecting salesmen.

4. ***Another conclusion which follows from a review of recent research is that the general intelligence or mental alertness test contributes little, if anything, to the selection of competent sales personnel.*** Thus, for example, in the studies reported by McMurry,[24] the intelligence test (Otis Test of Mental Ability) was quickly withdrawn from the experimental battery because it showed no correlations with success as a salesman. Ohmann likewise reports that the Tremco Manufacturing Company tried out various intelligence tests and that, "in line with other investigations, no correlation was found between these (intelligence) tests and sales volume."[25]

While it is recognized that the intelligence test does not measure sales ability *per se*, it is possible that such a test may have a place in a battery for the selection of sales personnel. So, for example, it is the experience of the Metropolitan Life Insurance Company that the addition of an intelligence test to a battery does not improve the selection of Best and Average agents but does eliminate more Poor agents. The intelligence test, according to reports on this company, "also eliminates men who are not likely to succeed in the one week's training course, or who do not even begin work.[26]"

Lovett and Richardson, of the Procter & Gamble Company, point out that mental alertness items should have a prominent place in selecting sales personnel for promotion, and less for routine selling.[27] Since, in many organizations, it is necessary to make certain that some proportion of men selected for selling be available for advancement, as well as for other reasons, it may be desirable to consider the use of an intelligence test in the sales selection battery, recognizing, however, that the score will probably make no contribution to the prediction of sales success.

PITFALLS IN THE MEASUREMENT OF APTITUDE FOR SELLING

So much space has been devoted to the statement of what psychology has to offer in testing for sales ability, that little remains for the specific consideration of pitfalls to be avoided in working out a practical and productive testing

[21] Op. cit., p. 216.
[22] Op. cit., pp. 182-183.
[23] Op. cit., pp. 23-25.
[24] Op. cit., p. 173.
[25] Op. cit., p. 28.
[26] Schultz, R. S. "Test Selected Salesmen *Are* Successful," *Personnel Journal*, 1935, 14, 141.
[27] Lovett, R. F., and Richardson, M. W. "The Significance of Various Types of Test Material," *Personnel Journal*, 1934, 12, 248-253.

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program. The following, however, may be noted as having particular importance:

1. *Both the business man and the psychologist must guard against the tendency to plan an elaborate program in a situation which is not suitable for constructive and promising results.* For example, a recent issue of a technical journal carries a description of a most comprehensive study which is to be carried on in an organization employing 24 salesmen working in dissimilar territories scattered over the entire United States. A total of five or six salesmen are hired annually. Preliminary results are reported on 17 salesmen, with the statement that final validity cannot be established until the data on all the cases are available.[28] Considering the difficulty of obtaining comparable criteria in more limited territories; the errors of small sampling which will affect both the criteria data and the test data; and similar factors—there appears reason to question seriously that the investment of time, energy and funds will provide commensurate return in terms of acceptable results. Perhaps the solution to such a problem is large-scale cooperative research of companies engaged in the manufacture and sale of identical products, similar to that which is conducted for life insurance companies by the Life Insurance Sales Research Bureau.

2. *It should be recalled that possibly the greatest stumbling-block to successful achievement in testing is the difficulty of procuring adequate and dependable criteria of success in selling.* The complexities of this situation are well illustrated in an account, by Dorcus, of the steps required for arriving at a valid index of performance of bakery route salesmen,[29] and in the work of the United States Employment Service in the preparation of criteria used in validating tests for department store salespeople.[30] Every competent investigator is conscious of the criterion difficulty, but greater awareness of it on the part of business men will be of great help in facilitating sound research by conscientious psychologists.

3. *Among the most dangerous of pitfalls into which the unwary personnel officer may fall is that baited with the promise of a test of general sales ability.*

For many centuries the predecessors of the present-day chemists, known as alchemists, were seriously occupied with the problem of trying to transmute baser metals into gold. Combined with this was the search for a universal solvent or *alkahest.*[31] The motive behind this search was the belief that somehow or other such a universal solvent would wash away all impurities from common materials and leave in absolute purity the most desired of all substances, gold. The alchemists were, of course, unsuccessful in their search, but

[28] Otis, J. L. "Procedures for the Selection of Salesmen for a Detergent Company," *The Journal of Applied Psychology*, 1941, 25, 30-40.
[29] Dorcus, R. M. "Methods of Evaluating the Efficiency of Door-to-Door Salesmen of Bakery Products," *The Journal of Applied Psychology*, 1940, 24, 588-594.
[30] Stead, W. H., Shartle, C. L., *et al. Occupational Counseling Techniques*, American Book Co., New York, 1940, 273 pp.
[31] Phin, J. *Seven Follies of Science*, D. Van Nostrand Co., New York, 1906, pp. 194-195.

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this has not discouraged present-day exponents of alchemy in the field of psychological research in their quest for an analogous universal solvent.

In the measurement of sales aptitude, this takes the form of an almost blind groping for a test of general sales ability to be used in measuring aptitude for selling, regardless of the field in which the selling is to be done. Although sound research lends no encouragement to those who seek the universal solvent, they are nevertheless sustained in their efforts by the promises, direct and implied, made in connection with the marketing of psychological tests. The names of a few such tests will readily occur to everyone who has had occasion to look into the testing field. For the harassed personnel officer the best defenses against this modern analogue of alchemy are: *first*, to be skeptical of any test for which great claims are made; and, *secondly*, to insist that all the facts concerning the test be presented in simple, understandable terms.

SOUND AND CONTINUOUS RESEARCH PRODUCES RESULTS

There is every reason to believe that the right kinds of psychological procedures, properly used, can prove to be very effective instruments for getting results in testing sales ability. However, "scientific scrutiny and control of these instruments, which, like drugs, have their dangerous as well as helpful possibilities, is badly needed. By no means should we forego their use—but we ought to have a psychological pharmacopoeia, to say nothing of a Pure Norms and Tests Act."[32] Above all, it should be recognized that in testing sales ability, as in other fields, the scientific approach calls for "a substitution of business-like ways of 'making sure' about it for the lazy habit of 'taking it for granted' and the worse habit of making irresponsible assertions about it."[33] The scientific and productive attack on testing sales aptitude calls for nothing more or less than getting at facts, and trying to understand them.

* * * * * *

Question: Suppose we are a company using ordinary methods of selecting salesmen. What are the specific things that our organization should do to set up more scientific procedures?

Dr. Viteles: I have only one specific step to suggest: Go to the nearest university; find out who is the most competent man in the field of selection to work on your problem; and then provide him with adequate time and funds to carry on his experiments. There is every expectation that if you give him the time and funds, and he is a competent psychologist, you will obtain better results than are possible through other methods.

Question: What company should not take that step? For instance, you

[32] Crawford, A. B. "What About All These Tests?", *Occupations*, 1934, 12, 18.
[33] Giddings, F. H. "Societal Variables," *Journal of Social Forces*, 1923.

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indicated that a company could have too few salesmen to work with. Are there other types of companies that should not undertake such a program?

Dr. Viteles: I imagine there are some other companies that should not undertake this. For example, I was consulted recently by an organization employing about 70 salesmen, all working in a relatively small geographical area and selling the same product. However, discussion quickly developed the fact that it would be almost impossible to secure an objective and reliable measure of performance of those salesmen, because both the opportunities provided them and ratings of their performance were apparently strongly influenced by personal preferences and antagonisms among sales managers in the decentralized offices of this organization. Moreover, it quickly became apparent, even in preliminary discussions, that certain basic prejudices influenced the initial selection of the salesmen in such a manner as to disqualify this group from serving as an adequate experimental group in validating improved selection techniques. That is a rather unusual situation, but I imagine it is about the kind of thing you have in mind.

Let me reiterate a remark that I made in connection with my statement concerning small organizations: It is better for us not to initiate a testing program than to undertake one which is more or less doomed to failure in advance. I consider it necessary to emphasize this because every time a psychological testing program fails it constitutes a reflection upon psychology and the psychologist.

Now, as I have stated, I think the way to solve the problem of the small organization is for small concerns selling the same product to combine and to undertake research on a problem which is common to all. Such companies generally have sales associations of some kind, and probably the problem could be handled through the sales association.

Question: What is the minimum number of men you should have?

Dr. Viteles: That is a difficult question to answer. The Tremco Manufacturing Company is doing very successful work with 70. They are hiring about 25 men a year, I understand, which fairly quickly builds up a successful experimental group. It partly depends on the homogeneity of the situation. In a company employing 50 men in a small territory, selling under approximately the same conditions, you may have an adequate experimental group. Another company employing 50 salesmen working under very different conditions will not have a large enough group. Here you need the opinion of a competent and conscientious psychologist, who will tell you whether you should or should not undertake research, because his reputation, like your success, is involved in his decision. In spite of what might sometimes appear to the contrary, the psychologist does cherish his reputation.

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TESTS THAT HAVE FAILED—AND WHY

By MARION A. BILLS
Assistant Secretary
Aetna Life Insurance Company, Hartford

NONE of us likes to dwell on our failures as we do on our successes. However, I am going to cite three illustrations from my own experience of tests that did not work, and indicate why I think they failed.

The first apparently failed because we were attempting to apply it to the wrong level of job. The second failed, we believe, because the setup led to unconscious bluffing by the individuals taking the test; and the third because its interpretation was too complicated.

CLERICAL CHECKING TEST

The first was a simple clerical checking test. It consisted of two sets of numbers or two sets of names that were to be compared and the differences in which were to be indicated. These conditions appeared to fit the clerical picture perfectly; we all know that a considerable amount of clerical work comprises checking one record against another. Other companies, retail stores especially, had used this test with reported success; but, fortunately, we began our investigation with scientific caution by administering the test to a group of new employees. A study at the end of six months and a further one at the end of the year disclosed almost no relationship between test scores and success on the job. Why, then, was a test that had proved successful in some other companies of no value to us? We made another trial to determine if there had been a chance variation, but the result remained the same. Then a more careful study of other companies' experience showed that the test had been found useful at a lower level of clerical work than was performed by the individuals in our organization. At our level the test apparently would not function, and consequently it was abandoned. Had we accepted this test without adequate trial, we would have eliminated as many qualified applicants as poor ones; we would have narrowed our choice of applicants considerably.

PERSONALITY TEST

The second test was somewhat different. In selecting tests to administer to salesmen, we rather naturally chose a personality test. For years it has been assumed that the salesman is the extrovert, dominant type, and there has been some indication of this through tests. The tryout—which we have always in-

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sisted upon before accepting any test—was made on a Casualty School group. About seven times a year the Aetna conducts a five-weeks school for casualty salesmen. These men are mostly commissioned salesmen. They come to the school at their own expense and return to the field as active members of our agency force. This, of course, makes for rather ideal test conditions.

A comparison at the end of the year, and later at the end of five years, between the scores on the personality test and success in selling showed a relationship only if the test score had been an extremely low one—such a low one that only about 10 per cent of the testees were involved. Above that score no relationship seemed to exist between scores on extroversion, dominance, etc., and success in selling. A careful study of the situation revealed the following facts: First, these men were all sales-minded or they would not have entered the school. They were all considering themselves—or at least most of them were—as future salesmen; and, therefore, in taking a test of this kind they subconsciously (I think there was only very little *conscious* bluffing) attributed to themselves the traits that they believed they should have or thought they were acquiring. We were able definitely to detect some of these cases as, for example, the boy who scored extremely high on dominance, self-sufficiency, emotional stability, etc., and yet was so bashful when he came to discuss the test with me that he was almost unable to enter my office. After attempting to put him at ease, I asked him how he had filled out the test—whether perhaps in the past he had not been somewhat diffident, and whether he took that into consideration. He replied that he had been very diffident earlier in life but that he was "progressing" and had taken the test with his future personality in mind. However, in general there was no way of discriminating between those who were subconsciously bluffing and those who were not, and accordingly this particular test was abandoned.

TEMPERAMENT PROFILES

It is a little more difficult to describe the third test and to indicate the reason we did not find it useful. It is a personality test, too, and is based on a group of symptoms used by psychiatrists in the field of abnormal psychology. These have been carried over into the field of normal psychology without changing the original terminology. They depend for their interpretation not on the strength of one characteristic but on the relative values of seven characteristics which it is claimed are measured by the test. One must take into consideration in this test not only absolute scores but the interrelation of seven figures with each other, which our actuaries would probably tell us represented 5,040 possible combinations or profiles. As we tried to apply the test and interpret it for a group of salesmen, we found ourselves, with this number of variations, able to form almost any picture to fit the case. Perhaps I can better illustrate what I mean by citing the attempt of a certain individual to analyze

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my character from my facial characteristics. This person declared that I was fond of detail, which evoked a subdued snicker from some individuals in my department. At this apparent contradiction of his analysis, the man modified it by saying that I was fond of having things properly done—a small change, perhaps, but a significant difference. We felt as we analyzed this test that it was altogether too easy to make a shift in the interpretation and that we did not dare to use profiles because we realized that we would be fooling ourselves and telling ourselves that we were fitting the picture when we were only making shifts in the profile after we knew the picture.

I realize that this last explanation is complicated. But the test is complicated, and so is its interpretation. While we can doubtless make extraordinary predictions in certain cases, use of this test would place us in the position of the soothsayer of ancient Greece who told a certain general there would be a great victory; when the general returned after a great defeat, he declared that he had never said on which side the victory would occur.

During the period in which these tests have failed to prove serviceable, we have experimented with at least twice as many which have proved helpful in both our selection and promotion programs; these we are using in their proper places, we believe.

If any worthwhile conclusion is to be drawn from these three illustrations, it would seem to be that before you accept any test for your own purpose you must try it out experimentally. I know of no substitute or short-cut for the initial period of trial and hard work.

* * * * * *

Question: What has your experience been with Strong's vocational interest test?

Dr. Bills: We started giving Strong's vocational interest test in January, 1933, to our Casualty Schools, which instruct about 250 men a year. At the end of three years, and then again at the end of five years, we made a definite check of test scores with the ratings of the managers to whom the men had been assigned. We tried to use actual production as a measure but that proved too difficult. However, we felt that at the end of five years a manager knew pretty well whether or not an individual was doing a successful job of selling. Our last study, I believe, covered 1,020 men, each of whom had been in the field for five years or had left it within that period. We considered as complete failures those who had left the business; termed probable failures those who were producing so little that they could not make a living. Successes and outstanding successes were those making a living and those doing exceptionally well. What we discovered on use of Strong's Interest Blank was this: Taking the entire group (we did a little better taking it by age groups), among those

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who scored high on life insurance sales and real estate sales, there were 75 per cent successes to 25 per cent failures. Among those who scored low, the percentage was about the reverse—75 per cent failures to 25 per cent successes. There was a middle group for whom the chances were about 50-50.

By supplementing the scoring with an interpretation of our application blank, we were not able to improve these percentages; however, we were able to put a greater number into the differentiating groups. Without the application blank there had been about 30 per cent each in the high and low groups and 30 per cent in the intermediate group on whom we were not predicting. By adding the personal history, we cut down the unpredictables to about 20 per cent.

Lately we have been administering this test to our life insurance group. Present indications are that the Strong test will predict as accurately for life insurance as it does for casualty insurance.

Member: Dr. Bills, do you score on all 32 classifications on Strong's test or just on life insurance salesmen?

Dr. Bills: We score on 29 occupations. For the purpose of our prediction we use only real estate and life insurance. But in reporting to the managers, we give them the scores on the entire group of occupations. They prefer this because it gives them something definite to discuss with the men. And we frequently do get hunches from scores on other occupations. The test requires about 20 minutes per blank for 29 occupations, and it would not be any cheaper to test for only two occupations.

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TRANSPORTATION AND ROUTING OF SALESMEN

By J. EDWIN PASEK
Vice President
American Technical Society
Chicago, Ill.

FOREMOST among the questions disturbing sales managers today is the effect which recent restrictions on automobiles and tires will have on sales transportation. The ability of salesmen to travel their accustomed territories, and the problem of routing (the ability to cover the territory properly), pose serious questions for most of us.

Very few companies have been so fortunate or so farsighted as several concerns of which I learned recently. One purchased $20,000 worth of new tires early in December; two others purchased several hundred old tires and had them recapped early in January; and a few companies and salesmen traded their old cars for new ones before the first of the year. The vast majority, however (according to a recent sampling of approximately 100 companies in the Middle West and the East), were caught unaware when passenger cars and tire stocks were frozen. I suspect, therefore, that the average company is seeking ways to keep its automobiles running and to increase the sales mileage of its tires.

The company with which I am connected—with more than 200 salesmen driving cars—was faced with this common problem. Remembering the time-tested adage that "two heads [or many heads] are better than one," I set about contacting every sales manager I could reach to learn what others were doing. This was done by personal interviews, by telephone and by letter.

Let us review some of the results of that survey. Many of the country's leading organizations were questioned, and some excellent solutions were uncovered. Each of us will, I hope, recognize in these ideas, plans and policies at least a partial solution to the problem of transportation and routing of salesmen.

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For nine years Mr. Pasek was dean of the School of Commerce and Professor of Business Organization of the Central YMCA College in Chicago. For the past five years, he has been vice president of the American Technical Society, publishers of technical reference sets and books used by vocational and trade schools and by training divisions of industrial companies. His prime responsibilities are those of sales promotion and public relations.

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My interviews showed there is no need to attempt to distinguish between methods employed by organizations with a small sales force or a large one and between organizations using company-owned cars or those that require salesmen to furnish the cars. We can all gain ideas of value from the experience of different-sized sales forces and from those with company-owned and salesman-owned fleets. In presenting the results of the survey, I shall not give names of companies or individuals, since some have requested that I preserve their anonymity.

Because I felt that the subject involved not merely a problem of auto and tire conservation, I deliberately quizzed sales managers regarding their sales policies as well as methods of conservation. Conservation and sales policies are so closely allied that it was difficult to separate them for purposes of this report. The results might have been tabulated differently—but that is immaterial for purposes of this decision. The important question is: *What is being done?*

RESULTS OF SURVEY

Briefly, more than 50 per cent of the sales managers interviewed are devoting a great deal of thought to the problem, while the others are expecting "manna from heaven." In some companies, top management is only now becoming concerned. Several firms have scheduled meetings for *next month* to consider this question.

I discovered a *few* companies that have done nothing and that are very little concerned. The number of companies sampled should provide a fair cross-section of the country, but I hope that such instances of complacency as the following are not representative of sales management generally:

Two companies felt that no problem existed since there was an abundance of free advice about conservation which salesmen will accept as a matter of self-protection. Another company had recently advised its 12 district managers to cover their whole territory by car to show their salesmen that they should quit worrying about the tire shortage. Too many companies felt that the tire shortage was only a hoax—as necessary as "Pearl Harbor" to scare the American people into taking the war effort seriously! They fail to realize that 97 per cent of our crude rubber came from the Far East.

Many concerns feel that the OPA will eventually realize the necessity for apportioning tires to salesmen. My experience indicates that OPA would like to do so now, but the chances are slim indeed with new tires limited to Classification A and salesmens' needs recognized only for recapped or retreaded tires under Classification B. To obtain a certificate one must prove to the local rationing board that the salesman is engaged in "distribution which is essential to the war effort."

Some believe that synthetic rubber is readily obtainable. According to the latest estimate I have seen, this nation will be producing a maximum of only 500,000 tons of synthetic rubber *by the end of 1943* (not our normal peacetime needs), and three-fourths of this will have to come from plants yet to be constructed. More significant appears to be the report that the manufac-

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ture of synthetic rubber requires the use of raw materials which are needed for other war products.

Thus salesmen and sales managers who take the present shortage of automobiles and tires too lightly are in for some unpleasant surprises.

Let us consider the specific ways different companies are tackling this problem of sales transportation despite wartime obstacles. Some of these plans have been in operation for several weeks or months and have proved their soundness and practicability. I shall make no effort to present the plans in any particular order; there is no "order of importance" that can apply to every one of us.

METHODS OF CONSERVATION

Many companies are conducting educational campaigns among their salesmen:

1. To instruct them on automobile and accessory maintenance.
2. To teach mechanical conservation.
3. To encourage them to conserve the equipment for bad weather, when it will be needed and appreciated more.

Some companies have devoted large sections of their regular bulletins to the subject of conservation, or produced special bulletins on conservation. Companies with technical experts on their staffs have composed their own instructions on car and tire conservation; others have rewritten bulletins distributed by oil companies, tire manufacturers, and various accessory makers. Never has so much valuable free advice been distributed on how to make cars last longer. (In the past, manufacturers have apparently hoped we would wear them out by the time new models were ready.) Some sales managers have obtained quantities of this literature on conservation to distribute to their sales force. Every manager should urge his men to obtain and study this material, whether the men are driving their own cars or cars owned by the firm.

SPECIFIC PLANS

Following is a tabulation of some of the specific plans in use to keep cars in operation and to conserve tires:

1. Some companies require their men to study the auto manual furnished by the car manufacturer so that they will know how to take better care of the cars and will be aware of conditions that need servicing.
2. Others give the men specific instructions respecting proper driving speed, braking, tire inflation, when and how to rotate tires, corner turning, oil changes, parking and garaging, etc. These companies check up on their men at intervals to see that they are following directions.
3. Several companies require periodic checkups on the cars in use. If the firm maintains no service department of its own, the men must produce a voucher showing that the checkup was made with some service station. One company requires a limited checkup every 1,000 miles and a complete one every 5,000 miles.

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Companies requiring periodic checkups report positive savings in cost of maintenance and operation of the equipment. One company reports a saving of 40 per cent since it put the plan into effect.

4. A few companies report the use of governors to limit the speed of driving. Some set the top speed at 40 miles—others 45—others 50. When the salesmen for one company complained to the sales manager that the speed limit was too low, he replied, "It's still faster than walking." Costs of the governors were reported as low as $3.10 per car by one company with nearly 2,000 cars to $5 and $10 by organizations with a small number of cars. One manufacturer of governors reports these savings on cars equipped with his product:

Gasoline	13.5%
Oil	26.0
Tires	22.6
Brakes	29.2
Engine repair	32.0
General maintenance	26.0
Accidents	37.0

5. One company uses an electric branding iron to burn the company name into tire side-walls to discourage theft of tires.
6. Another concern exhibits moving pictures on auto and tire conservation at its sales meetings—but reports the idea only fairly successful.
7. Several companies have cut the use of cars to a minimum:
   a) One firm laid up 50 per cent of its cars for 1942, and it does not plan to put them back into service except to replace those now in operation as they reach the end of their usefulness.
   b) Some firms permit car use only for alternate weeks or let the salesman use the car two weeks and lay it up two weeks or adopt some similar plan of limited use of the car. This procedure has been followed both by firms that operate their own fleets and by those that require their salesmen to have cars.
   c) Two firms, one with company-owned cars and the other with salesman-owned cars, have required salesmen to reduce their mileage a minimum of 25 per cent. Mileage is checked at intervals against previous weekly or monthly mileage records. The company with salesman-owned cars has applied this rule to cars operated on a mileage allowance as well as to cars used on a daily allowance basis. The concern with company-owned cars has adopted a coat-lapel button to be worn by the salesmen which reads "One Call for Defense"; this is to impress on customers the fact that the salesman cannot come back as frequently as in normal times or on demand by the customer. The idea here is similar to that of other firms which seek to emphasize to dealers and customers that certain costly services are not to be continued "for the duration."
   d) Some salesmen are given mileage quotas based on past travel records and must report reasons for any variations from those quotas.

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8. Several companies have eliminated "off routes," "back calls" and "special services."
9. Salesmen are requested to eat lunch in the territory—not to drive home or to some central point for lunch.
10. Salesmen are requested not to drive to the plant or headquarters for samples or stock pickups—these are to be delivered to the territory by company trucks.
11. Cars are not to be used for driving to sales meetings. Many sales meetings have been eliminated—but, when they are necessary, salesmen are asked to come in by streetcar, bus or train.
12. Salesmen are instructed to remain in the territory and not drive home at night.
13. The men are allowed to come home at weekends if the cost of train fare is no greater than the expense of staying out; but the car must be left in the territory.
14. Personal use of company cars has been eliminated by many companies. One firm is so strict on this point that a salesman found using the car for other than business purposes is fired on the spot.
15. Increased use of the streetcar is urged by many companies. Salesmen who complain that they are thus forced to put in a longer day to make their calls are told to use the time spent in traveling to make out orders and reports which they previously had to complete at home in the evening.
16. Some salesmen are making use of the Train-Auto Service. They ride between towns by train or bus and rent cars when absolutely necessary on the Driv-ur-self plan.
17. Salesmen are urged to make better use of the telephone and more effective use of the mails. Cards are sent in advance to the dealer telling him when the salesman will call and how long he can stay.
18. Several companies are making greater use of the mails to contact isolated customers or small merchants. Customers and dealers, it is felt, will be willing to cooperate when told the reason for fewer salesman calls.
19. Some sales managers were apparently raised in the country—and they remember how a farmer's neighbors "ganged up" to help him at threshing time. One week all the neighbors helped him thresh; the next week the whole group moved to another neighbor; and so on until the whole community had been threshed. One company in Texas is adapting this procedure to the problem of car and tire conservation. This firm has four salesmen, all of whom have their own cars. Three of the men, leaving their cars at home, move over to help the fourth salesman cover his territory; one of the men works at distant points with the car. Then all four take the train over to Territory 2 and work there with one car until the job it done; and so on until the state is covered. Then the process is begun all over again.
20. Some companies have attempted to have their men "double up" with

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other salesmen. This plan hasn't proved so successful, since one man gets through before the others and wastes time waiting for them.

One company has permitted about 10 per cent of its sales staff to "double up" with men selling kindred lines. The experiment isn't considered too successful. For one thing, the practice has necessitated additional insurance coverage.

21. One company doesn't permit its managers to use cars except on emergency business.
22. Two companies have had the salesmen relinquish use of passenger cars and ride their territories on the delivery trucks.
23. One company has sponsored a "campaign for salesmen's suggestions." This should help to "sell" the idea of conservation more quickly than all the rules and regulations sales managers can devise. Salesmen, after all, are human, and like best restrictions that are self-imposed.

SALES POLICIES

I have labeled the balance of the ideas gleaned through my interviews as "Sales Policies":

1. Routine reporting of salesmen to the district or home office has been eliminated by one company. The men have been asked to refrain from the usual Saturday morning visit to the office.
2. Less frequent calls on small dealers or customers have been ordered. Branches and salesmen have been instructed to classify their customers into A, B and C accounts. Calls are to be cut on B and C accounts, and greater emphasis placed on direct mail contact with them.
3. The Collection Department of one firm requires the salesmen to take a firm stand with customers to avoid backtracking.
4. One firm has established a new policy of minimum shipments. Orders below a certain minimum will not be delivered without a service charge.
5. The number of deliveries has been curtailed by some firms. Daily deliveries have been cut to deliveries three times per week and semi-weekly deliveries to one per week.
6. Car use has been eliminated in congested areas by some firms—men must walk or ride streetcars. Two companies have bought or asked their men to buy bicycles.
7. One company has revised its sales coaching program to give new salesmen better training which will enable them to make sales on the initial calls—and thus avoid backtracking (a policy that all of us might find profitable in more ways than one).
8. Salesmen of one company are not permitted to leave bids on which to call back after the dealer has received other bids. "The dealer buys or he doesn't," said this sales manager. He reports no loss in business because of this hard-boiled policy—gains in some spots offset losses in others.
9. Territories are being studied and reassigned to reduce travel. Out-of-

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town salesmen are being moved to central points; local men are moved to their territories; and some men are moved closer to public conveyances.

10. Non-profit territories are being closed out entirely by some companies.
11. The number of sales meetings are being reduced, and meetings still continued are *better planned* (another step in the right direction).
12. One company requires its men to solicit orders in advance of the delivery day. No car is used for solicitation.
13. One company reports that it is attempting "group selling" instead of "individual selling" as long as it can get people together.
14. Mileage allowances on salesman-owned cars have been increased by some companies.
15. Men are being pulled out of certain weaker territories and given sections of strong territories.
16. The plan or policy that seems to have the most far-reaching effective results is that concerned with routing and re-routing of salesmen. Yet only about half the companies interviewed were doing anything about this.

ECONOMIES OF ROUTING

Pearl Harbor solidified this nation's war efforts. I believe that Pearl Harbor can also be the sales manager's excuse to do things now that should have been done a decade ago.

Routing and re-routing should be made a *regular* sales management procedure. This is a day of scheduling (war or no war); most of us operate on some kind of schedule. The twice-yearly checkup with the dentist has become quite commonplace—although a few of us still wait until a tooth begins to ache. Regular working hours—say, 9 to 5—have become a matter of course. Yet the very salesman—and sales manager for that matter—who believes in the strictest adherence to regular working hours is often the very individual who hasn't given a thought to working out an economical sales route.

From several of the companies interviewed I learned that sales and district managers are taking a more active part in the management of routing. Territories are being diagrammed. Maps are being studied. Area potentials are developed by studying population trends, dealer and customer statistics, past sales records, and transportation facilities—particularly convenience and service frequency of public conveyances.

While some of the conservation ideas have aimed at "lengthening mileage with existing equipment," the purpose of routing is to "reduce miles and still cover the territory." Furthermore, it is far easier to visualize the savings on mileage than the savings on maintenance.

Sales managers who have apparently accomplished the most through routing and re-routing are those who have allowed their salesmen to assist them. They have taken the men into their confidence—have acquainted the salesmen with the problem and then asked for their aid in its solution.

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In working on the problem with your salesmen, it might be well to take out a map and plot the previous month's calls on it from the sales tickets or other records. Colored crayon may be used. Another good device is to put a tack at "home base"—the salesman's residence or the home office—and tie a string to it. Then place a tack at every city where the salesman called (or every section of the city, if the salesman is working in a large town). Then take out the travel record, or, if you have none, ask the salesman to trace his movements by passing the string from tack to tack to show how he traveled his territory. After he has covered a given area, cut off the string. Now start from the home base, eliminating backtracking, and note how much string you have left after covering the territory. You won't have to tell your salesman how many unnecessary miles he traveled—he will probably laugh and say, "Did *I* do that?"

For a routing plan to function effectively, each salesman should plan his route in advance, with the help of his sales manager; he should use a Call Planning Sheet; and the salesmen should be checked on to see that they are following the plan.

Not all these policies and plans can be applied to every sales force. We may hesitate to adopt some of the ideas that could be used because it would necessitate a radical departure from past practices. But this is an emergency, and it provides an opportunity to take steps that we may have always wanted to take in the name of efficiency. In doing so, however, let us do nothing which will defeat the necessity of selling or which will minimize the importance of the salesman's function.

* * * * * *

Question: What are the trends in mileage allowance for salesmen's own cars?

Mr. Pasek: I discovered that the tendency is to increase the allowance to salesmen for the use of their cars. Companies that formerly paid 4 cents a mile are paying 4½ cents or 5 cents, and some that paid 5 cents are now paying 5½ cents.

Question: You referred to salesmen "doubling up." Is there any general rule that can be applied with respect to the restrictions on liability insurance?

Mr. Pasek: The companies that have followed the practice of doubling up said they had to increase their liability insurance. Some insurance brokers to whom I spoke have dodged the question and said, "If companies are puzzled by such a question, let them by all means compare notes with their insurance broker before they get involved in too much doubling up."

Member: In connection with this subject, I might mention that in some cases it is necessary to redesign the salesman's equipment when he is forced to

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walk or travel by bus or train. The equipment he previously carried by car may often be too heavy for him to carry unaided.

Mr. Pasek: A number of companies that have started using bicycles did not consider that problem, and the salesmen could not carry all the stuff that they needed on their bicycles.

Member: This whole problem also has a psychological angle. Many salesmen today who still have good tires and cars are beginning to let down because they think they will not be wanted when they no longer have tires. It is extremely important now to impress upon salesmen the fact that there were many successful men in the days when there were no automobiles, and there will be plenty of successful salesmen again if they have to cover their territories in some other way.

Question: Have salesmen who use bicycles found them satisfactory?

Mr. Pasek: Use of bicycles has not worked out very satisfactorily—but frequently little else can be done. The men cannot walk fast enough, and they will reach their destinations somewhat quicker with a bicycle.

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MARKETING SERIES NUMBER 47

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WARTIME ADJUSTMENTS IN SALES PERSONNEL

BY

TOMLINSON FORT
WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY

EDWIN G. ROOS
PLYMOUTH CORDAGE COMPANY

KENNETH A. MEADE
GENERAL MOTORS CORPORATION

HD4966 Salesmen
HD5707 War
HD7281

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THE SALES DEPARTMENT GOES TO WAR

By TOMLINSON FORT
Assistant Central Station Sales Manager
Westinghouse Electric & Manufacturing Company
East Pittsburgh, Pa.

THE first problem of American industry today is the all-out conversion of production facilities from a peace to a war basis. According to Donald M. Nelson, "delay in this conversion may lead directly to the death of American fighting men." Westinghouse began its changeover almost two years ago and is now rapidly approaching 100 per cent wartime operation.

It was our good fortune to be in a business that made us somewhat familiar with all branches of production. We have participated in the electrification of every type of industry—utility, railroad, textile, marine, and hundreds of others. We are not only converting our own facilities to war purposes but are aiding materially in the conversion of other industries.

WESTINGHOUSE SALES ORGANIZATION

Our sales organization brought in more than $300,000,000 worth of business before we got into the war, and when we actively engaged in hostilities we decided to use the brains and imagination of this valuable arm of our organization in furthering our program. It is not easy to convert hundreds of salesmen overnight from a part peactime and part defense attitude to a complete wartime attitude, yet the speed with which this organization has made the change has amazed us.

Our salesman usually works for at least a year at headquarters before going out into the field organization. He knows our products, our engineering concepts and our system of doing business. He then starts as assistant to an experienced man, gradually taking on increased responsibilities embracing selling and customer relations. Although this man wears the tag of "salesman" he is

THE AUTHOR Tomlinson Fort joined the Westinghouse Electric & Manufacturing Company immediately upon graduation from college in 1923 and has been with Westinghouse continuously since that time. Following experience in various Westinghouse factories, he served in the sales offices of the company in Albany and New York City and was appointed Assistant Central Station Sales Manager in January, 1940. In this capacity he is associated with the sale of all types of apparatus which the Westinghouse company makes for central stations.

One of Mr. Fort's recent additional duties is that of sales representative on the Westinghouse Priorities Committee.

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usually an able engineer. This is virtually a "must" because the electrical manufacturing industry does not sell its output by the pound, but sells thousands of specialized pieces to fit the engineering requirements of many industries. In a technically trained selling organization of this type the salesman's job does not end when the contract is signed; he is responsible for coordinating the facilities of our whole company to serve his customer properly. He also brings customers' ideas back and "sells" them to us.

AIDING THE CUSTOMER

This organization is helping our customers meet their war problems by aiding and advising them in procuring defense contracts and by encouraging them to take subcontracts from us. In this connection our Washington office has rendered invaluable assistance. It is used by all our men in obtaining information on the progress of various government programs. As a result of this policy we definitely know that they have been able to help 500 different companies to put a part of their plants on war work.

We feel, too, that our program of helping others to convert their facilities will go a long way toward preserving customer relationships. Our salesmen are particularly helpful to the small business firms who may not have all the knowledge we have as to the uses to which they may put their machines.

To keep customers up-to-date on priorities, we send our salesmen current information on new regulations. We post them on restrictions placed on various markets. If a new industry is given recognition by the War Production Board as vital to the defense effort, the sales organization is notified at once so they can make our facilities available to every industry vital to the war effort.

PRIORITIES EDUCATION PROGRAM

A priorities committee for the company has been organized, and the sales department is represented on it. The fundamental policy of this committee is that the priority problem starts with the sale. Understand the problem at the time of sale and you avoid misunderstandings due to misconceptions.

An intensive educational program on priority rules was prepared for the sales department. For this program we used a training plan which has worked with great success for us on apparatus lines. It consists of a sound film to bring the story on priorities to the salesmen graphically. This sound-film program starts with a message from Donald Nelson, to give the national picture; then a message from our director of purchases and traffic, Andrew H. Phelps, to give the company picture. A section of the sound film is devoted to answers to the most commonly asked questions on priorities. Next comes a message from Ralph Kelly, vice president in charge of sales, that puts the priority problem directly up to the sales department. At each presentation of this sound-film program in our major offices a representative of our priorities

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committee acts as an expert on priorities and conducts a question-and-answer forum with the salesmen. Every salesman is given an opportunity to have his personal problems answered, no matter how trivial.

This educational program on priorities was put on within a period of a little over two weeks in our offices from Boston to Los Angeles and from Seattle to Atlanta. The great interest manifested in the program by all of our salesmen showed us their desire to participate fully in this business of conversion to wartime operation. This program reduced interdepartmental questions on the subject about 90 per cent.

UNINTERRUPTED PRODUCTION

The War Production Board places great emphasis on the necessity for maximum output from vital industries. To attain this, uninterrupted plant operation is a necessity. Accordingly, our engineers have worked out an electrical network system for defense plants which provides increased flexibility and reliability. This system usually requires less apparatus than other systems, and we sponsor it because it contributes to a more effective war effort.

We conducted an educational program on this system for our sales organization. Result? Ten defense plants have adopted it. We are sure their reliability of operation will be appreciably better than would otherwise have been the case.

To minimize war unemployment and maintain production, the War Production Board is doing everything possible to keep plants operating. Priority assistance is available for all industries for repair and maintenance. We established a special group in our sales department to encourage our customers to keep their equipment in good repair. When a salesman today can show a customer how to repair old machines and save him from buying new ones, he is serving his country, his customer, and his company. In this effort we have been aided by some 34 field manufacturing repair shops established long ago in various parts of the country. These shops are also being used to take on work normally done in our major factories. One of these is today making steam turbines; others are making switchboards and other electrical apparatus.

Much old equipment has been brought back into service during the present emergency and our salesmen are encouraged to aid our customers in locating available used equipment. A salesman in upstate New York helped a small railroad to get a switching locomotive from a customer in the Middle West. A salesman in Memphis helped a munitions manufacturer to obtain several large used motors to get his plant in operation. I could cite many other cases of this type.

TRANSFERRING SALESMEN

Our marine business today is coming in at a rate about 20 times what it was three years ago. We have had to transfer a number of men from other

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branches of selling work to our Marine Sales Organization. Fortunately, electrical equipment is much the same whether it floats or is on land, so it has been possible to have the senior salesmen on marine work guide the men who have been transferred to this type of selling. We have expanded our factories to take care of much of this marine business and converted many of our productive facilities on other lines to the manufacture of apparatus for marine applications.

Our machine-tool business has expanded in similar fashion to our marine business—we have also transferred men normally on other work to handle this increased volume. This activity is closely coordinated by frequent meetings of the supervisors. They are posted on the latest developments and in turn guide their salesmen. Here we have introduced an innovation. We invite leaders of the machine-tool industry to come periodically into our factory and hold what we call a "Machine-Tool Electrification Forum." It is their forum, they conduct it. From this forum we get the latest ideas from our customers so that we may adjust our operation to better fit their requirements.

SALESMEN PROMOTE SUBCONTRACTING

Our salesmen have been of great help to us in "selling" subcontracts of war work to our customers. "Selling" is the correct word because in many of these cases we actually had to prove to our customers that they could perform some of the operations. Our sales organization has become well posted concerning facilities in the plants of our friends for handling subcontract work and our production organization tries to use these facilities. To illustrate how widespread subcontracting has been: We placed subcontracts last year in some 24 states from coast to coast, and we propose that this number of states will be increased in 1942.

An interesting case of subcontracting was recently carried through in New York City. We were building a large turbine for a customer located there but had to put this order to one side to work on Navy orders. Our salesman convinced us and our customer that some of the parts, critical from the standpoint of our production facilities, could be made in the customer's machine shop under our supervision. This is something neither of us would have even considered in peacetime, but this is war. As a result, the customer will get his machine sooner than would otherwise have been possible.

One of our customers formerly made steel shafts for which we manufactured the high-frequency generators used in hardening the shafts. Today this customer produces munitions and needs as many of these generators in three months as we could normally supply to him in a year and a half. Another cooperative arrangement was worked out whereby we pool the facilities of our factory, the customer's shops, and our service shops. The generators will be manufactured in the required time. The man who is coordinating the arrangement is the salesman who handles the shaft manufacturer's account.

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In another case one of our salesmen calling on a rubber company saw the mold department of that company shutting down. He was instrumental in starting negotiations resulting in the use of this department as a subcontractor making motor frames for us. These are only typical examples of aid we are getting from our sales organization in our all-out war effort.

NEW USES FOR PRODUCTS

All of us have hobbies, even in our business. There is a tendency for salesmen to specialize on lines they like. In a company making many diversified products this tendency must be controlled. Our method of control is for every salesman to assign to himself the task of finding new uses for certain products that he has rarely sold and promote them among customers who previously have not used them. This scheme has served to stimulate thinking in the sales organization of new uses for our products for the war effort.

My remarks have dealt entirely with our apparatus selling organization. Limitation orders on electrical merchandise and material shortages have caused us to make readjustments in our merchandise selling organization as well. Some of the merchandise salesmen have gone to other departments, some have left us, and the remainder are continuing on what remains of this class of business.

Yes; orders are yours and ours for the asking. But are they orders which contribute to the war effort? Are they orders for which we can obtain materials? Are they adapted to your diversified facilities? The answer to these questions is "yes" where the sales department is converted to war effort. The first step in the conversion of a plant to war activity is getting an order for the type of war product the plant can make. Who brings us such orders? The salesman.

If we learn nothing else in this war, it will be the value of trained men. The training of the German troops in Spain prepared them for their blitzkriegs. The Japanese soldiers who marched down to Singapore were trained on the battlefields of China. The experience in Finland showed the Russians their weaknesses. Our own hope of victory lies not only in the valor of our armed forces, but in the ability of experienced Americans to out-produce our enemies.

But for full effectiveness we must have coordination. We must appreciate its value in business operation. And it is the responsibility of the sales department to foster cooperation between our company and its customers.

* * * * * *

Question: I want to ask Mr. Fort this question: Are you still in a position to help any of the men whose companies are represented here to find war orders or defense orders? Are you still carrying on that sort of program? If so, how should these men go about securing help?

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Mr. Fort: We are still subcontracting many kinds of work. You should get in touch with our office nearest you and one of our representatives will call on you. We try to groove all our contacts with our customers through our salesmen. Every customer in the country has a salesman who is responsible for him. The actual negotiation, of course, will be with the people in our organization responsible for subcontracting. The salesman acts as a coordinator.

Chairman Heitkamp (American Type Founders, Inc.): However, if any one gave you his name and the location of his company today, I take it you would be glad to pass that information along to your salesmen.

Mr. Fort: I would be glad to. Incidentally, I am reminded that we have found subcontractors in many peculiar places. It has greatly surprised us to find that many industries which we do not normally consider in the large-machine class have very large machine shops. I was talking with a man recently about subcontracting, and he told me that the thing he had found more difficult than anything else was locating the fellow with the "know how" rather than locating the machine to do the subcontracting job. In our subcontracting work we have had to furnish the "know how" in many instances.

Member: Balancing the load of the sales force in the outside territories has been one of our big problems. Naturally, the salesmen who have been working with industry are loaded up. That is particularly true of those who have been working with aviation or any of the direct contributors to the war effort. On the other hand, salesmen who have had the responsibility of transportation companies are not at all busy and we have had quite a problem changing those men over into the industrial field in order to try to balance the load and really give necessary engineering service. I do not think our salesmen today are serving as salesmen; I think they are serving as application engineers, and in a way very helpful to all of our customers. To balance the load has been one of our real problems.

Mr. Fort: That is an experience we have had also. We have transferred many of our men to marine and industrial selling. As a matter of passing interest, approximately 10 per cent of our salesmen have gone into the Army as reserve officers. We expect to lose about 10 per cent more within the next two months.

I will illustrate how important we have considered our sales organization: We have been for some time employing many additional engineers in our factories. But I know of no case where we have felt that we should transfer one of these capable engineer-salesmen back to our factory engineering organization. With the dearth of capable engineers today, this is clear evidence of how important we feel our engineer-salesmen are to us.

Question: One of the particular problems that confronts us is that the salesmen bring in great supplies of blueprints for estimates on parts that we

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might be able to produce. We do not maintain an estimating department and it just about crimps the management to get out this great number of estimates, and after they are completed the estimates are often too late to be of any use. I wonder if there is a way around that particular situation?

Mr. Fort: I do not know what line you are in, but I will say we have had the same experience. I was in one of our sales departments the other day when two big boxes almost as large as cotton bales came in. They contained the specifications to bid on a contract for equipping a cantonment.

In normal times the length of time that we have for putting in bids to the government is from 30 to 60 days. We now have to put in many bids in three days. That has been a very difficult problem, and we have not been able to prepare as comprehensive proposals as we like to. We have had our engineer-salesmen prepare many of our proposals in the field. They use published information and work up propositions which previously they sent in to headquarters. I can give you no suggestions, except to tell you that we have been wrestling with the same problem in preparing our own bids.

Question: Most of these jobs have been figured by the prime contractor. My thought is that perhaps they could express the prices they would be willing to pay on certain work and then very often you could judge the situation from where you stand, instead of having to figure out every detail which is necessary in order to give a decent estimate.

Mr. Fort: Whenever that policy can be followed it certainly should be.

Question: I would like to ask Mr. Fort whether his electrical household utilities division has been able to shift the merchandising type of salesman to any kind of work that will be helpful in the war effort?

Mr. Fort: As I mentioned in my talk, we have made a number of transfers of our merchandise salesmen. These men represent perhaps 10 or 15 per cent of our total sales organization, so they have not been a major part of our problem.

Member: We have maintained 82 or 83 per cent of our field organization. I was thinking particularly about what they would do to help their retail dealers, or whether or not you are up against the same thing that the automobile industry is, so far as retail dealers are concerned.

Mr. Fort: We are up against it very much the same as you are except that we are perhaps two or three months behind you. The War Production Board is allowing refrigerator manufacture to continue a few months after automobile production has stopped. But we have that problem and are working on it at the present time.

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FITTING SALES COMPENSATION PLANS TO TODAY'S CONDITIONS

By EDWIN G. ROOS
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WHILE the subject of my paper confines itself primarily to a consideration of sales compensation *under today's conditions*, I thought it would be helpful in my analysis of the problem to discuss the subject in the following order:

1. The factors that should be covered in all sales compensation plans.
2. The objectives at which all plans should aim.
3. The basic types of plans.
4. The application of plans as an individual problem.
5. A case history, in which I shall attempt to establish fundamentals that are desirable in fitting sales compensation plans to today's conditions.

I should like to say here that my entire experience and study in connection with this matter of sales compensation plans has been confined to the fitting of such plans to the organizations of manufacturing concerns, and not to the jobbing or the retail field.

I am certain that many of you have struggled with the problems involved in determining for your own companies the *ideal* sales compensation plan—and I must admit that despite all the work I have done I have never felt completely satisfied that I had hit upon the plan that could be applied 100 per cent, and one that was at the same time entirely equitable to both the company and each member of the entire sales staff.

BACKGROUND FOR COMPENSATION PLAN

I can, however, visualize a set of circumstances under which an ideal sales compensation plan might be developed. The company's manufacturing facilities, production costs, accounting procedures, selling and administrative expenses, and profits must in no way be affected by the proportion in which its

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Prior to becoming vice president and director of sales of the Plymouth Cordage Company, which position he now holds, Mr. Roos was vice president in charge of sales of the Certain-teed Products Corporation.

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products are sold; its volume and profits should remain fairly constant and market potential and existing volume should be about equal in all territories. Then, within the limits of what the business could afford to pay for distribution, we would be faced with practically only one problem—i.e., the difference in the cost of living in the respective territories. Under these conditions we could develop a sales compensation program that in all probability would be *completely* equitable to the company and to each member of its sales staff.

Unfortunately, most of us find ourselves working under a set of circumstances considerably more complicated than those I have just outlined. Our manufacturing facilities, our production costs, etc., are not so ideally constituted. Most of us face the practical problems of having to balance product selling and production facilities economically; of selling products to established but widely diversified markets; of introducing new products; of building markets in territories where we are not properly represented but where we can profitably ship our products; and numerous others—all of which necessitate a decision as to what we can afford to pay for that selling. It seems obvious that a sales compensation plan that is proper for one of these selling problems will not apply across the boards to all of the others and, I remind you, I am still talking about these problems as they existed under conditions that we used to call "normal."

AN INDIVIDUAL PROBLEM

In my opinion the sales compensation plan is largely an *individual* problem. Naturally, there is a great deal of similarity in the fundamentals of all sound compensation plans, regardless of the company's individual problems. But any such plan that does not completely take into consideration those characteristics peculiar to the one company for which it is being determined is not going to be wholly effective—and developing the modifications necessary to meet these individual company characteristics is the real problem to be solved.

While most of you have had wide experience in developing sales compensation plans for your respective companies, I believe it will add point to the later discussion of fitting these plans to *today's conditions* to review briefly the major steps in arriving at a proper compensation program. There are, to my mind, *four* such steps.

FOUR BASIC STEPS

The first of the four steps incidental to arriving at our compensation plan is to decide that we do need a plan. We need a plan because we have definite, previously determined results which we desire to accomplish through our selling personnel and we fell that an incentive might help us to attain these results.

Having determined that we do need a plan, the second step is to develop

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the basic factors that provide the limits within which our plan must operate. It seems to me there are 14 factors that will in most cases suffice:

1. It must be a plan that is adaptable to the present and probable future financial condition of the company.
2. It must be adaptable, with a minimum amount of friction, to present and, as far as we can predict, future general economic conditions.
3. It must provide for a minimum income adequate to cover the standard of living of the salesmen.
4. It must be a plan that will provide the salesmen with an income, based on normal volume conditions, comparable to that paid to similar salesmen in other companies.
5. It should be free from extreme changes in income from year to year for any individual as long as he continues in the same capacity.
6. It should provide for eventual standardization of incomes of the various men, without making it impossible for the company to depart from this standard where it is deemed advisable.
7. It should be comprehensible to the salesman so that he will know *exactly* what he will receive for any definite accomplishment.
8. Its administration should be simple, requiring a minimum of clerical expense.
9. It should be adaptable to changing conditions such as the development of new territories, increasing or decreasing the size of territories, employment of new salesmen and other administrative or organization plans which the company wishes to put into effect.
10. It should offer an incentive for increased sales volume as a whole, but particularly on the more profitable items.
11. It should be a plan that maintains and improves the morale of the sales organization.
12. It should aim to eliminate frequent discussions between the company and the salesmen.
13. It should *not* be a plan that commits the company to expenditures or policies that might be embarrassing in the future.
14. It should *not* be a plan that interferes with the sales administrative functions of the company by making it necessary to reward the salesman for some activity which the company may not wish to perform in that particular salesman's territory.

Next we must choose from the four basic types of plan the one which will be best for our organization. These are: the straight salary, straight commission, drawing account and commission, and the combination salary and commission or bonus plans.

We have all heard the arguments for and against these plans. We know the straight salary plan furnishes the company with rigid control, that it is easily understandable by both the company and the salesmen. It involves a minimum

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of clerical work; and it eliminates worry and its bad effects on salesmen's morale. On the other hand, it does not provide sufficient incentive; it encourages living up to a salary and does not promote habits of saving. The straight commission and combination guarantee and extra incentive plans provide the maximum of incentive, pay only for results, are flexible, economical and maintain a fixed expense-to-direct-sales relationship; they give a good salesman the opportunity to earn more while automatically eliminating the poor salesman, and eliminate arguments between management and salesmen. The disadvantages are lack of sales control, splitting commissions to cut prices, emphasis on volume rather than on sale of the more profitable items, increased clerical work, greater organization turnover, etc.

As I said before, we are all familiar with these arguments. But we must, nevertheless, decide upon one or the other of the plans. In doing so, we take the third step in our procedure and are ready for the fourth step, which modifies the plan to meet our individual problem.

TRENDS IN COMPENSATION PLANS

In discussing this problem as it is affected by today's conditions I feel that we should establish an approximate time at which these conditions began to affect our compensation program. Before doing that, however, let's go back somewhat farther. A recent Dartnell Corporation report in which "data gathered from a survey of 291 companies, carefully selected as being representative of widely varying lines of business, size, location and other factors" presenting "a comprehensive cross-section of sales compensation plans throughout the United States" shows that "the past ten years have seen two *major* trends in compensating salesmen. At the beginning of the period there was a stampede to *straight commission* bases of remunerating salesmen. Then, as business conditions improved, a gradual but definite trend away from commission bases, and toward *salary* plans, began to disclose" itself.

"For example, a Dartnell survey ten years ago showed straight commission plans leading, having gained nearly 25 per cent over figures compiled four years previous for similar lines. Today, on the other hand, salary bases are in the lead and a number of companies" who were reporting as operating on a commission basis at the time that this recent Dartnell report was compiled now "advise of their intention to shift to salary plans in the near future."

The shift to the straight commission type of plan in the depression years is understandable—it was exceedingly necessary to keep selling costs and profits in exact relationship. And the shift toward the salary type of plan, beginning some five or six years ago, is a natural shift also. Business began to improve slowly in 1932 and 1933, and except during the latter half of 1937 has shown an upward tendency since. During the period, roughly between 1930 and 1934, business was forced to reduce expenses drastically and many selling services and much territory development work had to be discontinued. However, as

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business conditions began to improve, businesses began to feel more secure and better able to make definite commitments in remunerating salesmen. This condition brought the salary, or at least a base salary, type of plan more into use.

While this trend toward the base salary type of plan was developing, war broke out in Europe in the late summer of 1939, and the period immediately following, i.e., *the latter part of the year 1939*, is the approximate time that I should like to establish as the period when we began to feel the influence of today's conditions with which we are so much concerned. I am sure that most manufacturers who compensated salesmen on any other basis than straight salary began to see an upward swing in salesmen's earnings beginning at that time.

I took over the job of Director of Sales of the Plymouth Cordage Company in the Fall of 1939. Among the various matters with which I immediately began to concern myself was that of sales compensation, and I feel that the experience in our company during the past two years is sufficiently pertinent to this subject to warrant a brief review here.

My company is confronted with problems that are common to many businesses today—shortage of some raw materials, tremendously expanded demand for our products, changing government orders, and a sales force upon which we are placing rigid restrictions in order-taking.

The sales department of our company prior to the Fall of 1939 had always been compensated on a straight salary basis, but after analyzing our past selling results, it was apparent that we were suffering from some of the *disadvantages* of this plan. Consequently we decided that a change to a basis involving some form of extra incentive would furnish us with better control in directing the activities of our sales personnel toward the results we wanted. We then considered the factors that we should want our plan to cover, and they were those 14 I have already outlined to you.

We then examined the four basic types of plans, knowing that we wanted to get away from the straight salary plan. We considered the types of personnel in our sales organization and their standards of living, and concluded that some minimum regular income was desirable. We therefore eliminated further consideration of the straight commission and the drawing account and commission types of plan. And we finally decided on a combination salary and commission or bonus plan.

In the application of this plan we decided to pay a salary for sales of a given *total quota*, with commissions on sales in *excess* of that quota. The quota is based on a one-year program, broken down, however, on a monthly basis with adjustment for seasonal variation. The commission is paid on a quarterly and cumulative basis. Part of our plan is a percentage holdback which is smaller at the end of the second quarter than it is at the end of the first quarter, and smaller at the end of the third than at the end of the second quar-

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ter, the slate being clean at the end of the year. The total quota is broken down into a small number of product groups on the basis of gross profit, and even though total sales may exceed the total quota figure, no commissions are paid until a minimum of 90 per cent of the quota for certain groups (the higher-profit ones) is attained. At this point commission rates are paid for sales of products in the different groups, as well as on sales in excess of 100 per cent of the total quota. We decided, also, that the company should own the salesman's car and pay all traveling expenses, these expenses to be budgeted conservatively and budgets rigidly adhered to.

We produce approximately 1,500 individual items. We planned, of course, to use past performance as a large influence in establishing territory quotas for the various ones, but it also was apparent to us that in some cases past results and obvious potentials were not in balance, and we were forced to do an enormous amount of concentrated market research before we were in a position to put our plan into effect.

Remember, we started this work in the late Fall of 1939. War in Europe had already begun and the demand for our products increased immediately thereafter. Our chief raw material—fiber—is grown outside the United States and we must depend upon ships to bring it, in most cases long distances, to us. The shipping situation in early 1940 was already growing difficult; what later became known as the "defense program" was beginning to get under way. Both direct and indirect defense activities continued to demand our products in greater quantities; dislocations in our selling opportunities were appearing and we began to have some doubts about the wisdom of changing from our old salary plan. Then came 1941, with the raw material problem in our business more complicated and the *demand* for our products continuing to increase. Government regulations became a factor which practically eliminated some of our markets.

About this time our compensation plan as we had originally conceived it was taking final form, but we were encountering serious dislocations in our various product volumes in the markets and in sales possibilities; quotas as originally determined were being considerably exceeded in some cases and not attained in others.

As previously mentioned, our products are made from fiber which is grown chiefly in the Philippines; secondarily, in the Dutch East Indies, East Africa, Haiti, Mexico and Cuba. Practically no fiber of the type we use is grown in this country, and to add further to our problems, bottoms were continually getting scarcer. Consequently our entire sales pattern became so upset that the original benefits we had hoped to secure became either meaningless or impossible of attainment, and we were forced to put our contemplated sales compensation plan temporarily on the shelf. Today's conditions dictated our decision; we remained on the straight salary plan.

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As far as order-taking is concerned, our salesmen are not very busy. We have, however, given them new responsibilities. Our WPB industry orders on selling involve the distributor and the dealer to practically the same extent that they involve the manufacturer. There are, roughly, 10,000 to 12,000 distributors and 35,000 to 40,000 dealers handling the products which our industry manufactures. To guide these distributors and dealers in their responsibilities under these orders, we created an Emergency Service Department in our business through which we reprint all OPM and WPB orders and send copies to all our customers. We have kept our sales organization intimately informed on all OPM and WPB interpretations pertaining particularly to our own industry order and have given them as much general information as we could compile through our emergency service department. The reaction of both our salesmen and the trade to this work has been excellent.

In addition our salesmen are doing practically all of the field work in our market research under the supervision of our market research department. At first we felt that we were meeting with some resistance from the sales organization in this effort. Later, however, we learned that there was a feeling among the men that there was considerable mystery about this type of work, and since we have cleared that point the response has been extremely enthusiastic.

PRODUCT INFORMATION

At the same time, while our salesmen know in a general way how the life of our products can be prolonged, our engineering department compiled valuable information of this kind which we have printed in booklet form for the education of our salesmen and for distribution to our trade. In addition, our engineering department compiled comparative technical information which equips our salesmen to give competent advice on the substitution of products made from fiber that is continuing to come to this country for products that were formerly made from fiber that is now available only from limited stocks.

We are doing everything we can to keep our salesmen intimately informed of all those developments in our industry that might make them advisers to our trade on every subject that could be of interest in the servicing of our products.

By the end of this year we expect to be able to judge the results, other than order-getting, of the work of each of our salesmen. For outstanding performance, we plan to pay a bonus based on those results as they are judged by the management. When we realized that we were forced to stay on a straight salary plan we reviewed each case, made some salary adjustments on merit, and others on cost-of-living changes.

And now let us see what some other companies who manufacture and distribute nationally have done and are doing to fit their compensation plans to today's conditions. You will have to take my word that these cases I have chosen

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represent a good cross-section of business as I have given my assurance that I would not refer in this paper to any of these companies by name.

WHAT OTHERS HAVE DONE

A large manufacturer who occupies a dominant position in his industry, operating many plants, maintaining a sales force of some 600 salesmen, and doing a thoroughly national job reports as follows:

> We have always compensated our salesmen on a basic salary, and in recent years we have paid, in addition, a bonus. Factors contributing to the bonus reward are composed of such items as: new accounts opened, percentage of increase over quota on a few profitable items, etc., and we are not confronted, therefore, with the compensation problem in the same sense that companies which have been compensating on a commission basis are but [and this, to my mind, is pertinent] it is obvious that we will be compelled to change our method of bonus payment because changed conditions are changing the goals which we must set for our sales organization in a way that our bonus will be a reward for accomplishment of a new set of results, and we are thinking along the following lines:
>
> 1. A sum of money to be set aside each quarter or each half year.
> 2. Salesmen to be rated individually by their district managers for performance and general suitability, so that salesmen performing outstandingly will participate in the bonus.
> 3. A group of managers to have the final decision as to how the money is to be distributed.
>
> And the basis of the plan we are considering is the rating chart. For instance, the maximum points could be set at 100 with only a given number of points for sales of each type of product, but, in addition, a given number of points for control of sales expense, general suitability, etc. One salesman might score 80 points, another 60 points, and another 50 out of a possible 100. Salesmen rating 80 per cent or above will get a bonus of $300.00; salesmen rating a score of between 60 and 80 points, a bonus of $100.00, and nothing to salesmen scoring under 60 points.

There is another report from a company which manufactures and sells in *various* industries and employs approximately 450 salesmen. The management reports as follows:

> Our compensation plan for some years past has been based on a salary with commission for sales in excess of quotas. In 1939, salaries averaged $2,100.00, commissions averaged $1,500.00. Naturally there was considerable variation in individual cases, but the average salesman's *total* earnings amounted to approximately $3,600.00.
>
> In the transition year, 1940, operating on practically the same compensation plan, average salaries amounted to $2,250; average bonus to $1,750.00, or an average *total* of $4,000.00 [approximately an 11% increase over 1939].
>
> In 1941, with the defense program well under way, the average *total* earnings amounted to approximately $5,250.00 [a 47% increase over 1939] but dislocations of opportunities were appearing, with greatly increased earnings, in numerous cases. Fortunately, it was possible to allocate production deliveries in such a manner as to hold penalizing influence down to a very few cases, and in these cases adjustments were made to eliminate the semblance of inequitable discrimination.
>
> Anticipating a continuation of these conditions into 1942, with every likelihood that these conditions would cause even wider fluctuations than in 1941, we found it

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necessary to revise our compensation plan in an attempt to prevent penalty to salesmen in non-defense areas, while at the same time preventing exorbitant compensation payments to men in defense areas. All of these revisions were made in preference to an arbitrary policy of withholding commissions from salesmen on defense orders. The latter would have been contrary to our long-standing policy of crediting salesmen with all merchandise sold within their respective geographical areas, regardless of the circumstances surrounding individual transactions. [That, by the way, is a very interesting sidelight, and a consideration that has caused a great deal of dissatisfaction in the sales organizations of two large companies that I know of. These companies attempted to withhold commissions on defense orders, despite a long practice of crediting salesmen with *all* merchandise shipped into their territories.]

In the light of today's conditions, each sales territory was studied intimately, in an endeavor to determine the worst conditions that could exist, and a minimum expectancy was estimated, and for this minimum sales volume a commensurate salary was established. The main result of these studies was a rather general average increase in salaries in 1942 of approximately 24 per cent over 1941.

In establishing these quotas and corresponding salaries, no rigid, mathematical ratio was adhered to, but territory conditions, past history, defense activities, and similar factors were given major consideration. [This emphasizes my contention that while certain fundamentals are similar in all sales compensation plans each manufacturer's plan is, after all, an individual problem, particualrly so under today's conditions.]

In addition to a quota for sales over which a commission would be paid, a "limit" was also established in each territory. Normal commission rates applied to sales in excess of the quota up to the established limit. Beyond the limit a reduced rate of commissions apply on a descending scale.

The change made in that manufacturer's plan to meet today's conditions is most interesting. The essential features of the original plan were maintained but the emphasis on salary was increased, while the emphasis on commissions decreased. Since the income from the commission part of compensation plans is most vitally affected by today's conditions, reduction of the importance of commissions as a part of the salesman's total earnings removes much of the speculation that manufacturers want to get away from.

UNIQUE PLAN

I found an extremely unique approach to the sales compensation problem taken by a well-known concern engaged in war production. This company's plan is the salary and commission type. The management planned the salary at an amount equal to approximately one-half of what they expected the salesman to earn in good years, assuming that in bad years he would have enough fixed income to assure him of a reasonable living, while in exceptionally good years he would earn 2½ times his fixed salary. The plan was adopted in 1934 and ran smoothly until 1939, during which years production ran rather uniformly. However, by June, 1940, due to a decided increase in the demand for this company's products, coupled with a large expansion program in its producing facilities, it became apparent that its compensation plan would have to be revised. Since the plan had always been operated on a calendar-year

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period (although the company was committed to only a 30-day period) the management immediately notified the salesmen in the middle of 1940 that there would be a change in the compensation plan for 1941.

THE PLAN IN OPERATION

This company's producing capacity was increased at such a rapid rate that in the early part of 1941 its production capacity was approximately 130 per cent greater than in 1939, and it was still expanding. In establishing the 1941 plan, the management agreed that it would be satisfied to pay the salesmen the old commission rate on a volume up to the 1939 production capacity, despite the fact that never had the company shipped its 1939 capacity for a period of more than two or three consecutive months. This meant that the salesmen as a group would earn more than they ever did under this plan, since it was evident that their 1941 sales would far surpass the company's 1939 capacity.

The management estimated that for the complete year, 1941, since the expansion program was progressing rapidly, the capacity would be approximately three times as great as it was in 1939 and that there would be sufficient demand for its products to consume this new capacity. And the sales compensation plan for 1941 was arranged on this basis.

First, since the management agreed that the production during 1941 would just about riple the 1939 capacity, the 1941 estimated sales were divided into three equal parts: On the first third of 1941 sales, which just about equaled the 1939 production capacity, salesmen would be paid the old rates of commission. On the next third of 1941 sales, salesmen would be paid one-half the old rates of commission; and on the last third of 1941 sales, salesmen would be paid one-fourth the old rates of commission.

Quotas for individual salesmen's territories were established by computing the average annual sales in each salesman's territory for the years 1935-1939 inclusive. Then the percentage relationship of these sales to the company's total sales for the same years was determined. These figures were applied to the first, second, and third parts of the company's total estimated 1941 sales in order to establish for each salesman the volumes on which he would be paid the old rate of commission on the first third, one-half the old rate on the second third, and one-fourth the old rate from there on.

This plan continues to pay the salesmen those commission rates that had been established for their handling of normal business, which fortunately is still an important part of this company's volume; it allows the salesmen to participate in earnings of the war volume which they handle; and it has the very excellent feature of returning automatically to the original plan when conditions again become normal.

Government rationing has created a very different problem for another company. Instead of being faced with prospects of a runaway market, this

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concern must fit its plan to a decidedly reduced volume. Currently the reduction from normal volume is approximately 20 per cent with prospects of its going to 50 per cent.

This company had employed the salary and commission type of plan. Quotas were set on the basis of potential sales volume in each territory. These quotas were so set as to provide an incentive for the salesmen to sell the higher-profit items. The products were arranged in three groups: Group A, Group B, and Group C. If the salesman's quota for a quarter was, for example, $100,000.00, that quota would be credited with $1.20 for each dollar sale in the A group; a credit of $1.00 for each dollar sale of the B group; and a credit of 80¢ for each dollar sale of the C group. Commissions started at sales of 90.1 per cent of *total* dollar quota. From 90.1 per cent through 95 per cent a commission of ½ per cent was paid; from 95 per cent to 100 per cent a commission of 1 per cent was paid; and for sales over 100 per cent of quota a commission of 2 per cent was paid. This plan employs the underlying principles of the point system.

The raw material reduction which this manufacturer is experiencing has dislocated those selling objectives that he planned to accomplish through his compensation plan. Realizing that a new set of objectives was desirable, he had to gear his compensation plan to accomplish these. He decided that emphasis must be placed on the importance of maintaining a favorable balance between sales in the high-profit group and total sales, of allocating available products to the most profitable accounts, and of preserving good will in the face of having to ask customers to take less merchandise. The management rates the salesmen on the basis of these new objectives and rewards them through a bonus fund which the management is setting up for that purpose.

I wish there were time to review here more of the very interesting cases which have come to my attention. However, I do feel that the cases cited, although briefly reviewed, bring out the essentials of most of the fundamental problems confronting us with respect to fitting our sales compensation plans to today's conditions.

SUMMARY

It seems to me that under present conditions it is desirable for each company to stay with the principles of the *basic* type of plan which it has been using—management is used to it, the salesmen are used to it, accounting procedures are set up to handle it, its features were adopted originally because it was felt that those features were best suited to the control that the management believed desirable when the plan was originally conceived. Further, since conditions are continuing to change, there is no assurance that any radical change in a plan can be of a permanent nature.

It is desirable, also, whether a company is affected either by shortages of

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raw material or by a runaway market, to determine the results expected from the activities of the sales organization and to modify the incentive rewards to encourage accomplishment of these new objectives.

In the case of a manufacturer who has a runaway market, it is advisable to scale down extra incentive rewards at the point where the salesman's income reaches a predetermined normal, even though this involves setting different commission rates in each man's case. A large part of this equalization of earning opportunities can, of course, be handled through the establishment of greater quotas in territories where there is a great deal of defense activity but the scaling down of commission rates after normal earnings in individual territories should be considered.

Manufacturers who are faced with raw material shortages should analyze the new requirements of both the company and the trade and should assign such new responsibilities to the salesmen as: acting as interpreters of WPB industry orders and as service engineers; developing skill in allocating the available products to the most desirable accounts; and exercising ingenuity and resourcefulness in preserving company good will, etc. Under these circumstances, it seems that the most practical and equitable way to determine the rate of extra compensation for good accomplishment is on the basis of the individual company situation since it is practically impossible to establish any mathematical formula.

It is desriable for a company faced with a shortage of raw materials and paying a basic salary and commission to place more importance on the basic salary (and in this connection the cost of living should be considered) and less emphasis on the commission part of the plan.

Finally, if order-getting is not essential give your salesmen plenty of other assignments. It is most desirable under today's conditions to keep them busy. Management should not take a selfish advantage of the present situation by departing from compensation principles of long standing; salesmen are our important trade contacts and are working under extremely trying conditions. Keep their chins up!

* * * * * *

Question: I would like to start the discussion by asking a question which I believe is in the minds of all of us: Where is the money coming from to pay these salesmen on any kind of a basis? Assuming that you have a product that is gradually going out of the market, what is the company going to do, and to what extent will that influence their policy of compensation where their normal product is going out of the market?

Mr. Roos: I don't want to pass the buck by not directly answering your general question, but these matters must be considered individually. It seems to me that a manufacturer who is doubling or tripling his production

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or who is producing ten times what he produced last year does not have to worry about where the money is coming from. While naturally the government wants no profiteering, it does not object to a manufacturer earning a reasonable profit which should enable that manufacturer to afford at least the nucleus of a sales organization on which he can build when the present boom is over, if for no other reason.

I don't think it's a question of worrying about where the money is coming from, unless today's conditions practically wipe an industry out of existence. The real question is whether a manufacturer maintains a sales organization, either to continue to sell his goods or to give customer service. My discussion is directed to the manufacturer who finds it necessary to maintain a sales organization but who, in the maintenance of that organization, must change his remuneration plan to fit today's conditions.

Question: May I ask if there is any adjusting of salaries within a given period, or are they fixed for the period of a year?

Mr. Roos: I should think you would have to adjust your salaries. It depends on your plan. If the greater part of your salesmen's earnings is from commission and the salary is more or less of a drawing account, I don't think the salary is important. But where the greater part of your salesmen's total earnings is salary, which seems to be the tendency at this time on those combination salary and commission plans that are being employed, I think you would have to adjust it from time to time.

Question: Many of those salary plans, however, are based upon previous records. The salary is computed on the knowledge of what has happened in a different period. I was wondering if you have worked out anything along the line, say, of adjusting the salary every three months based on the experience of the previous three months.

Mr. Roos: I studied the case of a manufacturer whose headquarters is located in San Francisco. He makes quarterly adjustments of all salaries, basing the new rates on the publication of government changes in costs of living, but his salaries are based on an actual average of several years previous to 1941.

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RELOCATION OF LAID-OFF PERSONNEL

By KENNETH A. MEADE
Manager, Central Clearing Point
General Motors Corporation
Detroit, Mich.

EVERY firm engaged in manufacturing and sales has been confronted with some degree of change in its organization during the past few months. This has not only affected the regular operation of business but has also affected to a grave extent one of industry's most valuable assets — its trained personnel. Many of these individuals represent a considerable investment in training; many have held responsible positions in certain branches of the business where operations have been suspended.

In General Motors we had considered the problem of relocation of personnel for some months prior to Pearl Harbor. In the early months of last summer we saw that with the increasing amount of war production or defense production (as it was called then), and with the decrease in the amount of materials available for civilian uses, we should have to transfer some of the workers engaged in the production, sales and service of commercial products to other activities. We accordingly laid out a program through which we could do this in orderly fashion over a period of several months.

The events of December 7 changed the picture entirely, bringing us face to face with a rather sudden stoppage of automobile production and sales. This meant that we had to speed up our program of personnel relocation and make it effective in a few weeks. The short time we had to solve the problem made it

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From 1925 to 1929, Mr. Meade taught physics and headed the science department at Kalamazoo Central High School. During these years he took graduate work in physics, mathematics and engineering at the University of Michigan summer sessions, receiving his M.S. degree in 1929.

From 1929 to 1932 Mr. Meade was an instructor in physics and engineering mechanics at General Motors Institute of Technology, Flint, Mich. Following this he headed the physics department of Lawrence Institute of Technology, Detroit.

In 1933 he undertook technical exhibit and publicity work at General Motors Research Laboratories. Four years later he was appointed director of training and placed in charge of college graduate recruitment and of salaried personnel problems at G. M. Research Laboratories. Since last year Mr. Meade has been Director of Technical Employment as a member of the Salaried Personnel Staff at General Motors Corporation Central Office.

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an acute one, and it was intensified because of General Motors' large, widespread organization and decentralized setup.

Prior to the cessation of our manufacture of commercial products, we had begun sizable production of defense and war materials. For example, last year we delivered over $400,000,000 worth of such products. Because of this, our manufacturing supervisory organizations and our engineering organizations were not affected. In fact, at the time of the stoppage of automobile production, we were seeking engineers and competent supervisory people for many of our plants engaged in the manufacture of war materials. The personnel included in our program of relocation were employees in our sales and service organizations and, to some extent, the hourly-rated people who were engaged in unskilled and semi-skilled production operations. These individuals have lost their jobs through no fault of their own, and we have accordingly felt a strong responsibility in assisting them to secure reemployment.

I should like to discuss rather informally our method of attacking this broad problem of "priorities unemployment." In doing so, it might be well to broaden the scope of my assigned subject somewhat to indicate how we have approached the problem not only as it has affected our sales organization but other types of personnel who have also been affected.

PERSONNEL STAFF'S FUNCTIONS

For purposes of background, I shall first describe briefly our organization for handling basic personnel problems.

The central personnel staff of General Motors comprises two divisions. The first is concerned with problems of policy and procedure respecting hourly-rated personnel. This group handles labor grievances and negotiations, safety, plant protection, employment of hourly workers, and the host of other problems that arise in an organization in which hourly-rated people are employed.

The second division handles the problems that arise in connection with salaried personnel. (As far as we know, we are one of the few companies with such a division devoted wholly to problems of salaried employees.) This salaried personnel staff handles matters of compensation, problems of policy and procedure, grievances and, finally, problems of coordination of employment (of which readjustment of personnel to changed circumstances is a major one).

As part of this personnel activity, it seemed advisable to establish a procedure through which the qualifications of experienced personnel in one part of the organization could be brought to the attention of the rest of the General Motors operating units during such an emergency as the present. Accordingly we established our clearing-point organization, whose purposes and operation I shall outline briefly.

In establishing our clearing-point procedure, we had three basic objectives in mind: First, during periods of curtailment of plant operations or sales, we somewhat selfishly wished to keep the most valuable employees in the organiza-

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tion as long as possible. And, in the case of an emergency like this present one, we desired to place those we were unable to hold where we would be able to get them when the emergency ended.

Secondly, we felt that where an employee lost his position through no fault of his own it was simply good business on our part to assist him in his quest for new employment. A clearing-point procedure, of course, could only *help* the employee, and the main burden of making contacts would be on himself. We did not wish any employee to feel that if he were laid off he could just wait until we found a job for him without making any effort himself.

In the third place, we felt a deep responsibility to aid the present war effort, and especially to try to place qualified people in jobs and positions where they could be of the most value to the war program.

Remember that, in assisting laid-off employees to find new jobs, we were dealing not only with individuals of specialized background, such as sales engineers and management people, but with workers possessing all types and amounts of training or experience. The education of some of these had been limited. There were some whose experience had been entirely in the field of automobile sales. Others had had, along with sales experience, broad manufacturing experience. Some had had technical educations which they had not drawn on for a number of years. Thus we had to screen and appraise this group, find the spots where they could do the most good, and then assist them in obtaining these positions.

HOURLY-RATED WORKERS

The clearing-point procedure has two applications: that concerned with the hourly-rated workers and that concerned with salaried employees. I should first like to tell you how we attacked the hourly-rated problem. Since this is not my own responsibility, I am in this case simply relaying information which I have obtained from those responsible for this activity.

The hourly-rated group includes all production workers, beginning with those on unskilled jobs and going up through the semi-skilled to the highly skilled machine operators, toolmakers, designers, etc. Since these employees are largely concentrated in General Motors plants in four areas (Saginaw, Flint and Detroit, Mich.; and Dayton, O.), it seemed desirable to set up a clearing-point procedure in those four cities.

Since we were dealing with a large number of individuals in this group, it was not feasible to call them all in for personal interviews. Consequently the procedure that we follow is, briefly, this: An application form gives the employee an opportunity to furnish information on all previous experience he may have had, whether it covered a few months or several years. He has a chance to outline his education, to list any skills he possesses, and to state where he thinks his services might be used to advantage in war production activities.

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This application is filed with the personnel department of the plant in which he is employed.

After the worker has filed his application and it has been checked by the plant personnel department, it is sent to a central clearing point in the city in which the plant is located. In these clearing-point offices this information is then coded and punched on a record card. These cards can then be used to sort out qualified people to fill requisitions received from plants in the area.

HOW THE PLAN WORKS

Let us see how this works. Suppose a plant in Detroit is seeking a group of skilled grinder operators. It simply sends in a requisition for the number of men needed and gives the code number of the job that it is trying to fill. The clearing-point manager in Detroit then sorts out the cards of applicants who possess that skill. If the plant has stated that it requires a certain number of months' experience, the cards are further sorted to select those who can qualify. The applications of qualified prospects are then sent to the plant for consideration. The plant calls the applicants in, interviews them, and makes a final decision as to whom it will employ. Clearing points confine their operations to their own areas and thus there is very little movement of hourly-rated personnel between cities unless an individual specifically requests that his application be sent to another city for consideration.

It might be asked, "How did you take care of the problem outside the cities mentioned?" (It is true that we have plants in many other locations which have been affected by the curtailment in automobile production.)

An employee in our plant at Janesville, Wis., for example, might wish to be considered for a defense job. In his case, he files an application like those used in the clearing-point cities with his personnel director. But this application, instead of being forwarded to a clearing point, is sent to the particular plant in which the employee desires to obtain a job. For instance, if he wants employment in our Allison Engine plant at Indianapolis, his application is sent by his home plant to the personnel department of the Allison Division, where it is checked to see if he would qualify for an opening. This application is then considered before those of outsiders.

It should be emphasized that in our relocation program the plant doing the hiring has the final responsibility of selecting the individuals and determining whether they are qualified for the jobs open.

ITS ADVANTAGES

What have been some of the advantages to the hourly-rated employee resulting from this clearing-point program? First — and most obvious — it provides an opportunity for hourly-rated workers who have been laid off because of curtailment or cessation of operations to be considered by a plant engaged in war production. Second (and this applied before Pearl Harbor) it gave

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employees who were on non-defense jobs a chance to apply for defense work.

What are the benefits to the war production program? First, it has facilitated the transformation from commercial to war production in this way: the more skilled, older and more experienced tradesmen were transferred first to war production activities, leaving the younger workers with lower seniority and less experience to "clean up" the normal operations of the automobile plants. In this way we have made use of the abilities of all; and we have given the younger fellows an opportunity to transfer to war production after the war production program has reached a more mature stage and the older men have been absorbed.

A second advantage to the war program is that there is no loss of time on the part of employees because of the need to seek work. All they are required to do is fill out an application and present it for consideration. When a job develops for which they seem qualified, they are asked to report for an interview, and if they qualify they may quit work in one plant on a Saturday night. say, and go to work in another plant the following Monday morning without any loss of time to themselves or to the war effort.

A third, and undoubtedly a major, advantage is that the experience and training of each man are available where they are most needed.

MAGNITUDE OF PROGRAM

An idea of the magnitude of this activity may be gleaned from the fact that in the four cities referred to over 20,000 applications have been handled. Some of these applicants have been transferred temporarily to war production activities outside General Motors — i.e., to other war plants in those cities. The program is now operating at an accelerated pace. One of our plants is accepting transferees at the rate of about 100 a day, and the rate of employment is increasing as the other plants complete their preparations for war production. It will be only a few months before all the group affected will be absorbed.

PLACEMENT OF SALARIED PERSONNEL

Separate from our clearing-point program for hourly-paid workers is our salaried personnel clearing-point plan whose coordination has been my responsibility. Any success which this program has enjoyed is due to the splendid cooperation we have received from the men who have handled it in the local communities. They have done the great volume of work involved.

Let me first explain how this clearing-point activity came into being. The fundamental idea and procedure are not particularly new. As I have said. when the salaried personnel procedure was inaugurated (in 1940) it had seemed desirable to set up an organization through which workers displaced through no fault of their own could be reemployed by other units of our organization so that we might capitalize fully on the training and experience of our best employees.

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Of course, in the past two years our organization has been expanding and we have not been laying off workers to any appreciable extent. But we were fortunate in having had in New York an opportunity to acquire some experience with the plan as it was originally set up. Our overseas operations were curtailed in 1939, and relocation of this group of employees was handled by the New York clearing point. This provided an opportunity to devise a placement procedure and a method of handling the necessary records. Further experience was gained with the workers employed in our World's Fair exhibit. As a result of these experiences the procedure established in the clearing point in New York served as a basis for revisions in our plans several months ago as we decreased production of commercial goods and increased production of war materials. Early last summer, as a result of information obtained through conferences held with our people from the field and from our plants, we revised this procedure to fit the needs of a nationwide program.

LOCAL CLEARING-POINT OPERATION

Here is how this activity is conducted now: There are 48 clearing points, located in 48 different communities throughout the country. These are somewhat concentrated, of course, in the East because we have a larger number of operations east of the Mississippi than in the West. Each of these clearing points is headed by a manager, who has the responsibility for assisting laid-off salaried workers of General Motors in his community in their search for new employment. In some cities this is only a part-time job, since the number of workers is small. In such cities the problem is handled by the General Motors Acceptance Corporation branch manager for that area. But in six cities (Saginaw, Flint, Dayton, Detroit, New York and Washington), where the number of people involved is large, it is the full-time responsibility of a clearing-point manager.

In addition to the 48 local clearing points, we have established a central clearing point in Detroit. Its responsibility is to coordinate and assist in the activities of the local clearing points.

Not only is the local clearing-point manager responsible for assisting laid-off salaried people in his community in their search for new employment; in addition, he is responsible for assisting the plants and other units of General Motors in his community in solving whatever salaried employment problems they may have. He has no authority to tell the General Motors organizations in his community whom they should employ and how they are to employ them. He seldom makes recommendations as to the efficiency and personal characteristics of an applicant unless, through a thorough knowledge of the applicant, the manager feels qualified to do so. He passes along any information that a previous employer may have given regarding the training and experience of the laid-off employee.

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MECHANICS OF PLAN

Let us see how this plan operates. A General Motors plant or division in a certain city is curtailing operations and finds it necessary to reduce its salaried personnel. First, the management reviews the qualifications of its personnel and sorts out those who are doing satisfactory jobs — the kind of people they want to retain in the organization as long as possible.

After undesirable employees are screened out, we are left with a group of employees of whom some, through no fault of their own, are going to lose their jobs. For example, an employe named John Jones may be one of these. His boss calls him in and tells him he is sorry but that curtailments in operations are forcing them to let him go as of a certain date; however, if and when operations are resumed, they want to reemploy him. He also tells the employee: "We are going to assist you in every way we can to solve your problem of unemployment, and try to help you get another job if we can, but you must assume certain responsibilities. You must go out and sell yourself to a prospective employer for whatever jobs we may find open."

A personnel record summarizing Jones' education and outlining his experience with General Motors and with other companies is prepared. Most important of all, this personnel record bears the recommendation of the employer on it. The employer is naturally qualified to state whether an employee has proved satisfactory and to indicate the kind of job he can fill.

When the personnel record has been compiled, it is forwarded immediately to the local clearing-point manager. At the same time, the employee is given a letter which describes how he is to use the clearing-point facilities. He is told where the manager is located and given his name and telephone number so that he can arrange a personal interview. This letter advises him to make use of this service and offers suggestions as to how best to take advantage of it.

A JOB OF COUNSELING

Jones then goes over and talks to the clearing-point manager. The manager first discusses Jones' qualifications with him in order to determine whether any details of his past experience may have been omitted from his personnel record, and whether he has any hobbies that might assist the manager in finding a job for him. The manager also has another duty, that of counseling with the applicant. John Jones may have sought a job only once or twice in his lifetime, and he may not know how to go about looking for one. So the clearing-point manager may have to make suggestions as to the best methods of approach. Perhaps Jones has been on a job that has been paying a high salary, and maybe there are very few jobs of that kind open now. The manager may then find it necessary to convince Jones that he may have to take a different type of job temporarily at a somewhat lower figure. This is sometimes a difficult part of the manager's work.

After the job of counseling is done, the clearing-point manager attempts to

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find openings for which the applicant is qualified. He first seeks openings in General Motors units in the community. If none is available, he attempts to find openings with local government agencies, especially those given over to activities connected with the war effort. Last of all, he looks for positions with outside companies that might be able to use an employee with Jones' qualifications.

Applicants who come to the local clearing-point manager are sorted into two main groups: first, that group of employees who are willing to move to other locations or whose experience and earnings have been such that it might be advisable for them to make a change of location; and second, that group who, because of their earnings, family connections or some other reason, do not care or are not able to move from their present locations. These latter are usually employees in the lower salary levels.

FUNCTION OF CENTRAL CLEARING POINT

In handling the latter group, the local clearing-point manager, of course, must concentrate on placement within his own community or close to it. With the other group he can obtain some help from other clearing-point managers. This was the reason for establishing the central clearing point. The central clearing point receives the records of workers who are willing and able to move any place and calls them to the attention of all the other local clearing points through periodic descriptive bulletins. These bulletins provide every General Motors plant with an opportunity to examine the qualifications of all laid-off salaried employees in other communities. In this way each applicant also becomes a prospect for any outside jobs, in government or private industry, in every one of the 48 localities where there is a clearing point.

In addition, bulletins describing openings in General Motors plants, in government agencies, and in other companies are sent to each clearing-point manager as such openings come to the attention of the central clearing point.

Early last December, certain government agencies approached us to ascertain if some of our laid-off employees would be available for various government services. Certain departments of the Army and Navy, as well as Civil Service and the new emergency departments that have been created in recent months, were interested in these workers. Accordingly, it seemed advisable then to have the clearing-point manager in Washington devote all his time to assisting the government in its search for qualified employees. As a result, a sizable proportion of displaced workers whom we have been unable to use immediately in our war production program have been placed in government service.

Two advantages are derived from such placement. The first is that these individuals are in positions where they can do the most good in the shortest time as a result of their background of experience and training. The second is that they occupy jobs which are temporary as a rule, and therefore, when the

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present emergency is over, they will be free to return to our organization to resume their old jobs. This will lessen the confusion that will accompany the resumption of peacetime operations.

RECORD OF ACCOMPLISHMENT

We have handled about 2,000 laid-off salaried employees to date. That may not seem an imposing record in comparison with the hourly-paid workers we have aided; however, it should be remembered that our individual divisions took as many of their salespeople as possible back into their operating picture before they screened their salaried personnel and laid off any. These 2,000 salaried employees were laid off only after there was no opportunity to use them immediately in our own war production efforts. We have placed over two-thirds of this group to date.

In conclusion, I should like to emphasize these points: First of all, the procedure which I have described represents nothing new. It has been a fairly long-established procedure of General Motors, though this is the first opportunity we have had to see it function on a nationwide scale.

Secondly, in undertaking this program we have really had the self-interest of the company at heart through our desire to hold the good will of employees who have lost their jobs. We hope that consequently we shall be able to build a strong organization to meet whatever problems are to be faced at the conclusion of the present emergency.

Last of all — but this probably overshadows the others — we have been able through this procedure to supply government agencies with skilled personnel whose abilities will be used to the greatest advantage in the war program.

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MARKETING SERIES NUMBER 48

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WARTIME REVISIONS IN SALES ORGANIZATIONS

I. INDUSTRIAL MARKETING

By FREDERICK B. HEITKAMP
Vice President, Mount Division
American Type Founders, Inc.
Newark, N. J.

IN common with all other groups in our economy, sales managers today must be governed by one major objective: the successful prosecution of this war. Though we naturally cannot ignore the immediate problems confronting individual companies, there must be an awakened consciousness in all our activities of this new product we must sell: the winning of the war. As yet, we are by no means aware of the problems that face us and the decisions we shall have to make to market this product successfully.

A recent radio address of Donald Nelson voiced an admonition and posed some pertinent questions to all of us: "Work as you have never worked before. . . . Are you suffering from pass-the-buck tendencies while MacArthur's boys are suffering death? . . . Are you doing everything in your power to promote the war effort? . . . Are you doing all that you can do to match the production of the slaves of our enemies?" These questions must be faced before we determine any wartime shifts in our sales policies.

There is a moral for sales managers in the recent burning and capsizing of the Normandie. While that ship was still burning, I am told, the authorities tried to decide what to do with it. They had an opportunity to scuttle the ship. If they did so, the Normandie would have settled down on the bed of the river. They decided not to scuttle it but instead to see what could be done to save it as it was. However, it keeled over.

The moral is this: We must have courage today to scuttle the ship. I refer, of course, to the sales ship—the sales organization. Too many of us are attempting to handle our sales organizations on margin accounts. We hope the market will go up, but every day we are called upon to cover. Daily we

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THE AUTHOR Frederick B. Heitkamp, who is vice president in charge of the Mount Division of American Type Founders, Inc., was formerly vice president of Lyon Metal Products, Inc., and for many years was general sales manager of the Cincinnati Milling Machine & Cincinnati Grinders, Inc. Prior to his appointment to the Mount Division of American Type Founders, Mr. Heitkamp was vice president of the company's sales division. While he has continued in charge of sales activities, the major part of his time is now devoted to war production. Mr. Heitkamp has long been active in the American Management Association and is well known to members of the Association's Marketing Divisions.

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find our margin accounts getting slimmer and slimmer, and we shall soon be sold out. The sooner we reach a determination to scuttle the sales ship, the better off we shall be. The tendency on the part of management, and on the part of sales management in particular, is to hold on a little longer — to feel that things may not turn out to be so bad as they seem, that, somehow or other, there will be products to sell. That kind of optimism is commendable, for without it you cannot have a good sales organization; but it ignores the cold facts of the current situation. Revisions in sales programs and policies are inescapable. By scuttling the sales ship today we shall preserve it for the postwar period.

CONTRASTING ATTITUDES

In a recent issue of the New York *Times*, one manufacturer made a public appeal in a headline advertisement for something to sell: "We want something to sell. We have a nationwide sales organization." This man was hanging on — he was selling his sales organization on margin. This manufacturer was not willing to scuttle his ship. His product had ceased to be made, but — very commendably, from the standpoint of his organization — he was trying to save the sales organization. That manufacturer's wisest course would have been to release a major part of his force for war industries so that they could put their shoulder to the wheel in helping to win the war.

Next to that advertisement was another one which read: "We are ready to subcontract. We have our plant ready to convert. We have equipment [he listed the equipment] and if we have to move all that equipment out and simply use our floor space for assembly, we are ready to do it." This typifies the attitude we must adopt during this emergency.

Today sales organizations may be classified into two broad groups. In Group A the standard product has ceased to be manufactured or its manufacture has been curtailed through lack of raw materials. In my own organization, for instance, we cannot obtain the iron, steel and other materials needed to make printing presses and we are being practically forced out of the printing-press business.

In Group A companies, flexibility should be the keynote of our revised sales programs. And we must maintain a realistic outlook. Above all, we should keep calm and adapt ourselves to the imperative need to win the war.

What readjustments must be made if your product is "on ice" for the duration? In answering this question, perhaps a case study of the readjustments made by my own organization would be illuminating.

READJUSTMENTS AT AMERICAN TYPE FOUNDERS

About a year ago we arranged with the British government to manufacture a certain type of gun. A new plant was constructed to handle the increased volume of business. We have had over a year and a half of experience in the manufacture of that gun. We utilized some 60 or 70 subcontractors to make the

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parts for the gun, and assembled the units in our own plant. Then we started gradually to curtail output of our own product. At the same time, domestic orders for machine tools, gun mounts for the Navy, anti-aircraft mechanisms and a host of other items poured in.

What happened to the sales department during this period? As head of the sales department, I had cherished for many months the hope that we could retain our men, that we could somehow hold on and obtain products to sell. But unfortunately our volume of peacetime products has by now decreased to 20 per cent of our regular sales volume. The 20 per cent represents type made out of lead, on which no restrictions have been placed.

What to do? We decided to face the situation calmly. We secured certain control statistics for each of our 23 branches, and compiled a control chart for every branch. We decided that as long as the expense-to-sales ratio in any branch remained at a certain level, we would not take any action to cut expenses; but when it went below that level, we would start to cut.

Among the items on the control charts was a current monthly expense-to-sales ratio, and an accumulated expense-to-sales ratio. We broke these items down, and we likewise broke down the internal expense to sales ratio. We maintained an outside sales force and an inside organization. When the inside sales expense exceeded a set amount, we started to readjust the personnel in the inside department.

As a further check, we had a chart of the total number of invoices handled by each branch, which gave us the number of items put through the branch. This was correlated with the number of people in the branch to determine whether we could reduce at that point or not. Another chart showed the cost of handling each invoice. As any of these indices moved up or down, it showed several months in advance what we should have to do.

We also compiled a chart covering the unbilled business, because unbilled business depicts the delivery situation in our own plant and in our suppliers' plants. This chart provided two or three months' notice of changing trends. And if the new business curve fell, we knew that our billings would drop two or three months afterwards.

BRANCH CURTAILMENTS

Consider what happened in our Cleveland branch, for example. There was a big backlog of orders in Cleveland, but new business fell off rapidly. Accordingly, we revised the entire setup in the Cleveland office. We brought the manager of the Cleveland office into one of our munitions departments, eliminating overhead. We combined territories. We moved into a reduced rent area. We curtailed telephone expense. We cut down on free service. We decreased the over-allowances that had been given on printing presses which we took in in trade. We eliminated entertainment and memberships in country clubs. We cut out many of the frills that can be eliminated without reducing personal income and salaries. We dispensed with part of the inside organization. We

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transferred one of the engineers from the Cleveland office to our munitions plant and gave him a munitions job. We took one of the service men from that branch and assigned him to a war job in one of our assembly plants. Through such methods we have saved trained men for the postwar sales revival and in the meantime have lessened the need of seeking war workers from outside sources.

We still have some goods to sell, and shall have for a number of months. It is unwise to close a branch and cease your selling effort as long as you have something to sell. A systematic control chart method provides a simple and profitable means of continuing to sell on a restricted basis. The difficult thing is to know when to take action; this involves courage and the ability to face facts.

THE B.V.D. PROGRAM

In our Detroit office, about six months ago, our figures indicated that expenses were entirely out of line. Accordingly, we have inaugurated in Detroit (and in seven of our other branches) what we very aptly term our "B.V.D. program." The sales setup has been stripped to the bare essentials. Our 13 other branches have just about got their shirts off, but we shall take some more off pretty soon. Eventually the branch offices will have one- or two-man sales staffs, and more and more men will have been transferred to war production.

What are we attempting to do? We are trying to hold the nucleus of a sales organization to serve the graphic arts industry; in our opinion, our industry constitutes a very vital part of the vast communications industry, which has assumed greatly increased importance in wartime. If we cannot sell new products, our service organization is equipped to rebuild our machines. If we cannot obtain repair parts, we will use Scotch tape, if necessary, or something else. But we intend to supply the graphic arts industry with the service and essentials to keep it going.

To illustrate further what our company has done and what similar companies are doing, I might mention that we shall be turning out by the end of this year ten times our normal dollar volume of product. Obviously, we have not done this without the aid of subcontractors. But by running several shifts, by adding workers, by diluting the working force with women, by bringing in younger men who can work a year or two before they are drafted, we have been able to increase production in our own plant substantially. We have also constructed a new plant for 37-millimeter guns, and we have bought a factory in Newark where we are engaged in the assembly of gun mounts for three of the major automobile manufacturers that are now making tanks.

I should like to urge companies whose normal production is being restricted to seek prime contracts and subcontracts without delay. A new policy is being followed by the government with respect to small manufacturers. Instead of seeking competitive bids, the government intends to place a sizable volume of orders through negotiated bids. Thus, for the small manufacturer

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who desires his share of war business, it is simply a matter of initiative, of making up his mind what he is capable of doing and how he can do it.

GROUP B

There is another group of companies which we can refer to as Group B. In Group B the standard product is still for sale and few restrictions have been imposed (examples: foodstuffs and other soft consumer goods, transportation, insurance, etc.). What readjustments must be made by such concerns?

Group B companies should not find it so difficult to coordinate their sales efforts to our major objective of winning the war. In the main, their readjustments, as I see them, will consist in lining up with governmental policies—priorities, etc. Their markets are shifting. What sales opportunities exist, for example, in the cities where army camps are located! (I was interested to learn from one of the lieutenants who is in charge of purchasing paper for the Army that in the recent maneuvers down South 500,000 paper bags were used every day with the soldiers' lunches. A half million paper bags daily for a month represents one tremendous shift in market.)

Another point: In any sales organization today that still has something to sell and can maintain at least a semblance of a sales force, the salesmen's incentive must not be permitted to weaken. No matter how much we are affected by priorities, no matter what sales obstacles are encountered, fundamental selling principles must not be discarded nor should sales efforts be in any way relaxed. Now, as ever, optimism should be a key attribute of our sales forces.

In conclusion, every decision should be measured by this yardstick: Will it help win the war? By all means, hold on to your sales organization if this seems the sound thing to do and if it does not hinder the war effort. Don't scuttle the ship if you still have essential products to sell. But (and this above all) let us cultivate a deeper consciousness of our primary objective today—the winning of the war—and of its profound implications for sales management.

* * * * * *

Question: Have you tried to hold your salesmen by training them for technical work?

Mr. Heitkamp: There are but few engineers in our sales organization. Those who had engineering training were the first to be transferred to engineering work in the plant. Service men who possessed mechanical experience were brought in and assigned to assembly jobs. But salesmen who lacked such experience and training presented a more difficult problem.

What we have done with these men is this: In our subcontracting organization there are jobs for expediters, and other jobs which do not require technical knowledge. These jobs do, however, require initiative, persistence and resourcefulness. We have found that a great many of our salesmen possess

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these qualities to a marked degree and fill such jobs successfully. More and more of them are being transferred to that type of work. Such a policy requires a careful analysis of the individual salesmen—their backgrounds, the work they are doing, their sales records, etc.—to determine the positions for which they are best suited. This analysis will indicate numerous other types of work for which the men are fitted.

Question: What has been your policy with respect to compensation of salesmen transferred to the factory?

Mr. Heitkamp: In general, we did not reduce the salaries of men who were assigned to war jobs. In certain cases where the salary of the salesman was higher than the compensation in the munitions division, the difference has thus far been made up from the sales budget. Of course, any raises these men may receive will lower—and may eventually cancel—the difference.

In certain instances we have reduced salaries in the field (our men work on a salary-plus-commission basis). We are shortly eliminating our bonus for managers because of product shortages. We shall give them a living wage based on a six-year average adjusted to what they received in 1941. Our future policy is problematical.

Question: What are you doing to maintain customer interest—to keep buyers aware that you will again be selling printing presses when the war is over?

Mr. Heitkamp: We are continuing our direct mail advertising and a restricted amount of trade journal advertising. Our salesmen still maintain customer contact, although calls have been restricted. For us, this is a period of transition.

We have established five depots over the country for the reconditioning of second-hand tools. Once a month we assure 40,000 of our customers that we shall do all we can to help the graphic arts industry carry on.

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II. CONSUMER MARKETING

By H. R. CHAPMAN
Vice President
New England Confectionery Company
Cambridge, Mass

THE manufacturer of consumer goods is facing a drain on his sales personnel, just as the manufacturer in the industrial field is, and the first group to be affected is that composed of junior salesmen, sometimes called "missionary men." But if production shortages are serious, these men need not be replaced. Practical economics suggests that the wholesale distributor take over the work they have performed heretofore.

Anticipating such a change, we are urging our wholesalers to revise their methods of canvassing customers—to give more attention to the smaller accounts and to provide more closely knit coverage of territories. These steps will serve a manifold purpose:

1. Salesmen will be able to *walk* their routes. (Joseph B. Eastman, Director of Defense Transportation, declared on February 4, 1942, "It is quite evident that, to a considerable extent, shoe leather will have to take the place of rubber and that the civilian population will find it necessary to substitute leg power for gas power.")

2. The distributor's accounts receivable will be spread more widely, and in times of stress it may be easier to collect a number of small accounts than a few large ones. If the distributor has only a limited number of accounts, all large ones, he may find his working capital frozen.

3. Under priorities a distributor will doubtless find it necessary to ration consumer merchandise. If he has a great many small accounts, instead of a few big ones, he can distribute his products more widely and so be of more service to the public.

4. Admittedly, the cost of servicing a multitude of small accounts is higher, but the distributor is compelled by the march of events to make a choice between two courses: (a) He may continue the present system of "high spotting"—in which case he will probably have to abandon many accounts in remote sections because of the difficulty of procuring delivery equipment; (b) he can face conditions realistically and reorganize his business structure gradually. In this way he will be able to serve the maximum number of outlets in a compact territory within a reasonable distance from his warehouse.

THE AUTHOR H. R. Chapman began his business life as a salesman in the food products field, and his career has taken him up all the rungs of the sales management ladder—salesman, sales supervisor, assistant sales manager and general sales manager. Today Mr. Chapman is vice president of the New England Confectionery Company, of Cambridge, Mass. He is serving his second term as Vice President in Charge of the Consumer Marketing Division of the AMA.

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As an established practice, manufacturers employ missionary men to further consumer acceptance of their products; these men promote wider distribution by consumer sampling, by setting up retail store displays, and by putting up point-of-sale advertising. While the manufacturer now finds it difficult or impossible to continue this special promotion work, he still recognizes the need of maintaining his position at the point of consumer purchase in the retail store. And the service distributor is the most logical medium through which this needed missionary work can be done. Whether the manufacturer should provide extra compensation to the distributor's salesmen is a matter for individual decision. The basic point is that the distributor and his sales staff constitute the only machinery available for the work.

From the distributor's standpoint, the wisdom of adjusting his organization to this missionary service is quite apparent. His cost of operation will mount higher and higher. The revenue which he normally derives from the sale of many sundry lines will sharply diminish. And his sales staff will have the time it has heretofore spent in selling the sundries to devote to the type of work formerly performed by the manufacturer's missionary men.

THE DELIVERY QUESTION

It is quite obvious that motor equipment and rubber must be conserved. While no entirely foolproof plan of getting around this difficulty has been devised, each distributor—regardless of the attitude of a few of his competitors (after all, the competitor is no miracle man either)—will be wise to follow some or all of the suggestions listed below:

1. Orders within one area should be assembled for delivery at one time, say, once a week.
2. What is commonly called the "delayed delivery" system may be used for suburban and country territories.
3. Under normal conditions territories are zoned, which means that a definite area is assigned to each salesman and he is held responsible for complete coverage of it. But when sales must be geared to the delivery problem, it appears more feasible to adopt the opposite plan. In other words, the distributor should send enough salesmen to the zone at one time to canvass the entire area in one day. All the orders thus obtained may be assembled for delivery on one day; thus a number of delivery trips can be eliminated.
4. Distributors can educate retailers to carry a slightly larger inventory.
5. The telephone can be used for back calls, with consequent economy in time and equipment.
6. Distributors are losing valuable employees to the draft and to other jobs paying higher salaries. Under these conditions, each man's situation must be considered individually and more understandingly than heretofore. It may be far better to hold a good man with higher pay—if that can be done—than to let him go to another job.

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7. It is imperative that business records, particularly accounts receivable records, be safeguarded against the hazards of war. Each office staff should be organized as a defense unit and a group of employees made responsible for getting such records to a place of safety in an emergency.

8. The armed forces of the United States are constantly expanding. In every locality distributors are supplying branded products to post exchanges, canteens, commissaries, ship's supply stores and other outlets supplying the armed forces. Regardless of cost, an uninterrupted flow of these goods must be maintained.

9. To uphold the purchasing power of the consumer's dollar is a matter of concern for the government and the public. Recently Congress passed the price control bill designed to checkmate any unnecessary upward spiral in prices, and in most communities consumers' councils maintain constant vigilance. It is advisable that manufacturers and distributors cooperate with both government and civilian agencies in an effort to safeguard the purchasing power of the consumer.

10. Consumers are already complaining that quality standards are being lowered. And it stands to reason that this may be true in some lines, since quality may suffer in any boom, and in a war boom the manufacturer is doubly tempted to lower his standards. However, let us sound the alarm against the policy. Your future markets can be destroyed by current sacrifice of quality.

* * * * * *

Question: Did your company formerly have any considerable number of small orders delivered by salesmen traveling in automobiles? And, if so, what do you do about that now?

Mr. Chapman: It so happens that we did not. Our missionary men—when we had them—used to carry a small stock for delivery to retailers immediately after sales, particularly sales of new items. That practice has been abandoned. We can sell all the goods that we can produce with the sugar available today without any missionary men. Most of them went to war, anyway. But our jobbing salesmen are older men and probably will not be taken.

Also, we decided to use some of the factory floor space formerly devoted to sugar storage for war work. So we fenced off a portion of one floor, and there we are assembling radio transformers. Girls, former candy packers whom we trained in assembly work, are doing the work, and they are very good at it.

Member: How much training did you have to give them?

Mr. Chapman: The General Radio Company sent over an engineer to show them how to do the work, and after a few days they were winding armatures and putting the parts together very deftly.

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Question: Have you made any changes in your advertising program?

Mr. Chapman: Yes; we are continuing our trade paper advertising and some of our direct mail promotion. We have suspended radio and newspaper advertising, however, for the time being. We do not consider that a good policy to follow permanently, but we are waiting to find out whether or not we are going to stay in business. If sugar allocations are cut further, we will not have even 80 per cent of our former quota, which is what we are getting at the present time.

Question: What percentage of your people are now engaged in war work?

Mr. Chapman: At the present time there are only 50 girls doing war work, although there are 1,500 in our plant. In the first place, those who are not American citizens cannot do war work. Then the war workers have to be fingerprinted, and the F. B. I. gives them a careful checkup before they go to the transformer department. But we probably will have from 200 to 300 at it before we get through. We also are going after some more government work. The War Production Board has now established field offices which are taking an inventory of plant facilities in each area. It is a lot smarter, we feel, to go after war work voluntarily, than to have government officials come in some day and say, "We need this space. Move out of here." They have the power to do that today.

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SELLING IN POSTWAR MARKETS

By DAVID C. PRINCE
Vice President
General Electric Company
Schenectady, N. Y.

WE ARE in the war, and we are giving everything we have to that war. But if, when the end comes, we have made no plans for the postwar period, we may lose all the fruits of victory. We must, therefore, be prepared to take advantage of our victory when it comes and begin now to think about the future.

Moreover, a good many people do not realize how much factual information we already have about the postwar period. Actually, we can fill in a large part of the economic picture of the future with a high degree of precision. Figures that we have today indicate clearly the sort of world we are going to face tomorrow.

Any survey of the future naturally begins with an examination of the immediate past — the platform from which we take off into the future. Therefore let us consider just the figures on production for 1940.

In that year we spent some 55.2 billions of dollars for food, clothing and house maintenance. In addition to that, some 8.3 billions went for durable consumer goods, including such things as automobiles, radios, refrigerators. Taken together, items in these two categories constitute the things that the man in the street buys.

We also spent 5.5 billions on construction, including public works and private residential buildings and, although we were not in the war ourselves, we began to spend money — the figure was 9.2 billions — to convert our plants for the production of war materials. Actual output for defense purposes, however, is represented by the relatively small figure of 4 billion dollars, which covers both our aid to Britain in that year and our own defense program.

The total expenditure, amounting to 82.2 billions of dollars, represented

THE AUTHOR When David C. Prince joined the General Electric Company in 1913, he began a career that has made him one of the most distinguished of that company's engineers.

Mr. Prince, now Vice President in charge of Application Engineering, was honored last year with the modern pioneer award for outstanding contributions to engineering science. He has to his credit 83 United States patents, including such important devices as the impulse oil circuit breaker, the 287-kv. 3-cycle circuit breakers for the Boulder Dam transition line, and other patents covering methods of electric ship propulsion and mercury arc devices for rectifier systems.

Mr. Prince is the author of 27 technical papers, many of which constitute important contributions to the scientific development of major apparatus. He is also the co-author of two books—"Principles of Mercury Arc Rectifiers and Their Circuits," published in 1927, and "Vacuum Tubes as Oscillation Generators," 1929.

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the labors of about 47 million people, working, on the average, a little less than 40 hours a week. The problem of getting production up, in fact, has been very largely a problem of putting people to work.

Up to the time the war began, we were assuming that full production, when we finally worked up to it, would require the services of 55 million people. And, on the basis of our activities before Pearl Harbor, it looked as though those 55 million people might average something like 45 or 46 hours a week. By that amount of effort, it appeared they would produce 110 billion dollars' worth of output.

Now, of course, we are in a war, and our ideas of full employment have changed. Instead of thinking in terms of employing 55 million people, we are thinking in terms of employing something like 61 million people; older people who have retired are taking jobs in industry, and wider employment of women is contemplated. The total labor force, therefore, has increased, and the production figure toward which we are shooting is not 110 billions any more but 115 billions, and may be set even higher later.

BILLIONS FOR CONSUMER GOODS

It looks today as though some 61 billions of dollars will be devoted to the war effort. But, whatever the figure may be, people have to go on living; they have to eat and sleep and have clothes to wear. And that means that they will have to spend some 48 billions on consumer goods.

While the durable consumer-goods industries are taking it on the chin every day, even at the peak of the war effort they will absorb a certain amount of income — about a billion dollars roughly. And since some non-defense building will be necessary also, we may set down a billion dollars for construction for other than war purposes. Also, since we must continue to produce the bare necessities of life, we shall still have to spend money for plants to produce those necessities, and we shall have to allow some 4 billions of dollars for that purpose.

But the major part of the activity of the country will be directed toward the prosecution of the war, and by 1943 the war effort will be going full blast. And the proportion of our national income spent on war production will be the measure of the dislocation we may expect in our economy. This means that we must plan not for a continuance of the war pattern in the postwar period but for the restoration of a peacetime pattern.

IN THE YEAR X + 2

We may analyze a year designated as $x + 2$, the x being the year of an armistice. Of course a purely transient and temporary condition will exist immediately following the cessation of hostilities, but after a period of two years some semblance of what one might call a normal way of life will be

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restored. And in considering the postwar markets, we find that a good many indications of what those markets will be like are apparent today.

We know, for instance, that the people then will be eating all they want, instead of trying to pull in their belts. They will be buying new clothes at a fairly normal rate — and doing a lot of other things in a fairly normal way. They will consume not only more than they did in 1943, the peak war year, but more than they did in 1940 because we are looking ahead to an era of full employment.

And there are good reasons for expecting an era of full employment. Extensive plans are being made for the government by members of the National Resources Planning Board — plans for public works projects which they propose to throw into the pot if unemployment begins to appear. Therefore the question is not whether or not we shall have full employment but what *kind* of employment we shall have. The most constructive thing for us to do, therefore, seems to be to assume that we shall have the kind of a society that we should like to have and to see what components fit into that picture.

On the basis of full employment we know pretty well what the total of wages and salaries will be, and a great deal of information is available to help us determine how those wages and salaries will be spent. From that picture, based on actual statistics, we can estimate that about 64 billion dollars will be spent for direct consumption articles such as food, clothing and house maintenance; we can predict that we shall have 13 billion dollars to spend for the durable consumer goods — for an enlarged production of automobiles, radios, refrigerators.

SPENDING THE POSTWAR INCOME

Then, above that 77 billions which will be spent in a more or less predictable way, I should allow 10 billion dollars at the top of the chart for military expenses. In the first place, a country which has been spending 61 billions on military expenses cannot, in three or four years, reduce that figure to zero. In the second place, we do not anticipate that the world will settle down to peace immediately after the signing of an armistice; it will be necessary to maintain military establishments of perhaps considerable size during the transition period. Thus we may expect to spend that sum, 10 billion dollars, annually for some time.

Then there are four categories that constitute the durable goods field. In that class we may lump together the public works program, the private housing program, the replacement of machinery worn out or rendered obsolete, and the manufacture of new producers' goods. The total must come to about 23 billions if we are to maintain full employment. (If our 1940 dollar has been depreciated by some 10 or 15 or 20 per cent, the relation between the figures will remain the same.)

Having estimated the total at 23 billions, we can next consider the break-

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down. If there is going to be full employment and if we in private industry fold up and do nothing, it is quite probable that the public works sector will cover a large part of this total. But we know perfectly well that neither we nor anybody else would like to have all the manpower of the country, over and above that needed to produce food and clothing, devoted to making parks. We just don't want that, and neither does anybody else. So we have the country with us in endeavoring to picture the world as we should like to make it — i.e., a world in which there is full employment, with people — mostly under private auspices—producing enough goods to enable the country to reach the highest possible standard of living.

PUBLIC WORKS, HOUSING, MAINTENANCE

Looking at it that way, we check back to see how much we really want to devote to public works. We do want some public works; there can be no argument about that. We want improved highways, schools, sewage and water supply systems. A reasonable figure for public works, we find, would be about 4 billion dollars.

Then we can determine the housing figure. We know how many new family units appear in the country each year and how many houses fall down or become uninhabitable. We also know what fraction of the national income is spent on housing each year. From this data we can estimate the number of new houses we shall need and their cost — about 6 billion dollars.

The next factor is depreciation. Annual depreciation in this country — the wear and tear on our productive plant — amounts to about 8 billion dollars. In other words, we must spend that much if we are to come out at the end of the year with the same amount of plant we had at the beginning. That leaves some 5 billion dollars to be devoted to plant expansion — to improving factories so that we may produce more goods at lower cost, to building new power plants, to manufacturing more streamlined trains and transport airplanes.

You may say that this sounds like a nice picture and that while we all wish it would materialize it is, in fact, largely imaginary. Actually, it is based largely on statistical facts; and the interesting thing about it is that if you set a number of statisticians to work on the available statistics, they will all arrive at these figures independently. That gives one confidence that the figures, far from being imaginary, have a substantial background.

One thing people always ask is, "What are we going to do for money?" That question also can be answered from the evidence.

Let us consider a sort of balance sheet for 1940. Wages and salaries amounted to 55 billion dollars, and those wages and salaries, together with interest and dividends, constituted the amount of money available for spending. In addition to that, we had accumulated business savings of 7.9 billions, making a total of 82.2 billion dollars.

We can go further and see how the income was used. Consumer expenditures amounted to 63.5 billions, consumer and personal taxes to 1.8 billions,

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and personal savings to 9 billions. That accounts for all the money actually handed out. Then we have also the amount saved by business, mostly in depreciation accounts.

Fifty-five billions went for food, clothing and household operation, 8.3 billions for durable consumer goods; savings and taxes went into plants, equipment and foreign balance. Thus we get a balance sheet which shows where the money came from and where it went. And by following the same general pattern we can see just about what sort of a picture our postwar economy will present.

If national income reaches the figures predicted, wages and salaries will amount to 68 billions, which is quite a lot more than usual because more people are working, and entrepreneurial income may be set at 19 billion dollars. Farm income will be up; more money will be paid out in interest and dividends; and obsolescence and depreciational plants will increase because we shall have so many more plants to depreciate.

If we examine the way in which that money is going to be spent, we shall find that consumer expenditures will amount to 77 billions of dollars, quite a lot more than in 1940, even though we make a large allowance for personal taxes. And personal savings and personal taxes together will amount to 22 billions. (Those two items are difficult to separate because we don't know what the tax policy will be. However, looking at the picture from the production angle, all we need is the total.)

Then 64 billions will go for food and clothing; durable consumer goods will take 13 per cent; construction, 10 per cent; plant and equipment, 13 per cent; etc. The whole thing again makes a story which balances, and that is good accounting practice.

IN TERMS OF MAN-HOURS

So far we have been talking in terms of dollars, realizing all the time that these dollars are really measures of man-hours of effort. Next I shall outline the man-hour picture which we expect to develop.

Between 1940 and 1943 manufacturing, as one would expect, expanded enormously; where it formerly employed between 10 and 11 millions, it now requires the work of something like 18 million people. Total employment has gone from 55 millions up to 63 millions. That represents an extraordinary increase in the working force, and the extra workers have been drawn from three groups, for the most part — young people who have just reached working age, older people who might otherwise have been retired, and women who in normal times would be staying at home.

When we enter the postwar years, many people, it may be assumed, will retire from the labor market voluntarily, and it is estimated that free choice alone will reduce the total working force from 63 million people to 60 million. Then, even in times of full employment, a great many people are unemployed simply because they are moving from one job to another. That will account for another 3 million.

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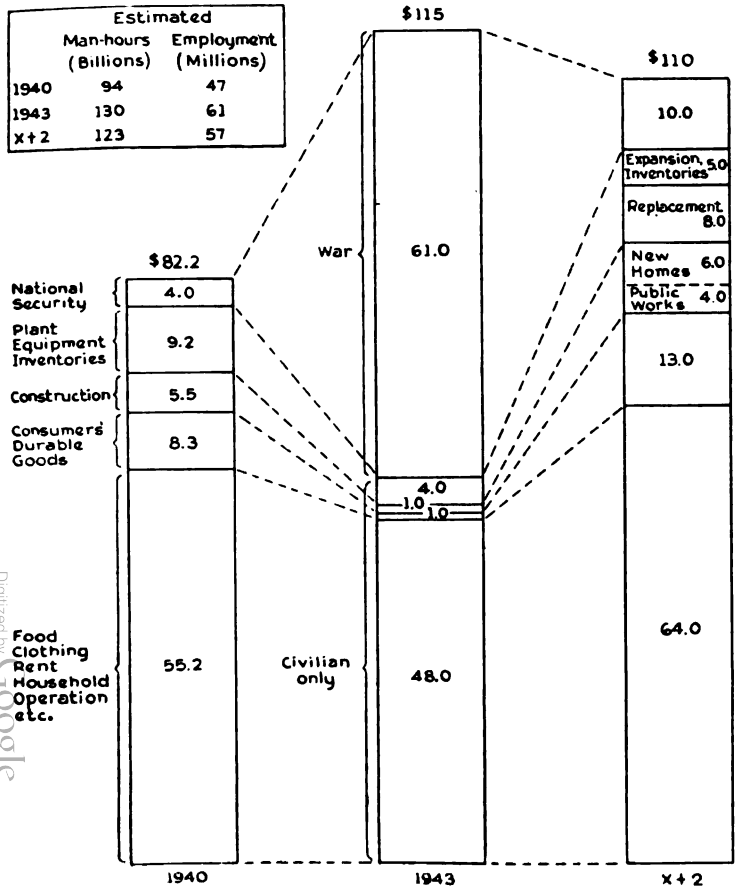
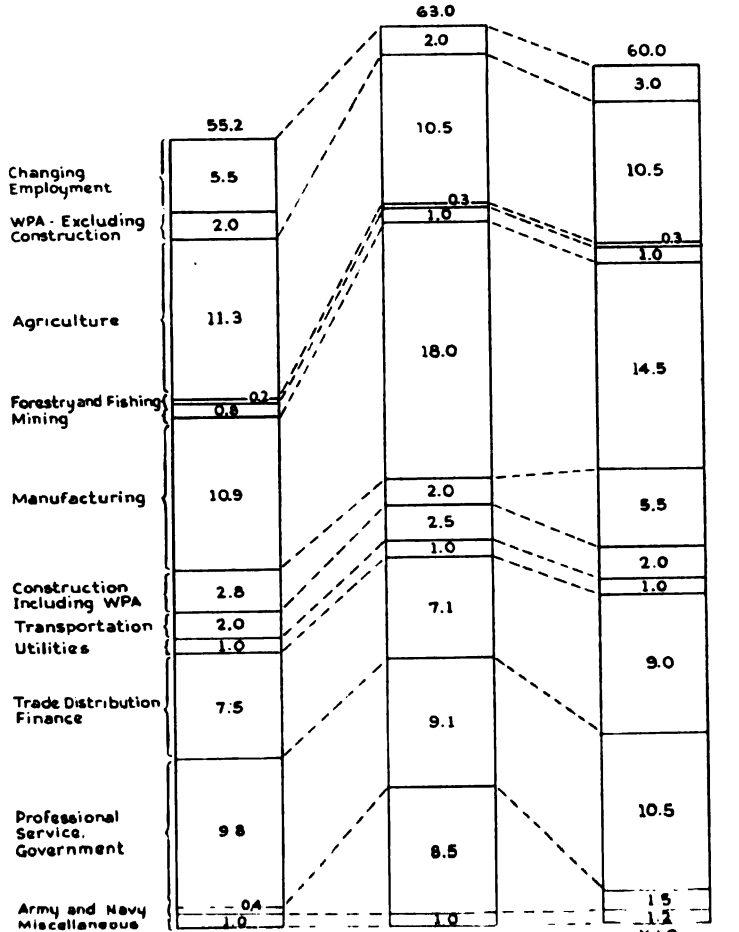
Components of Gross National Output
(Billions of Dollars)

	Estimated Man-hours (Billions)	Estimated Employment (Millions)
1940	94	47
1943	130	61
x+2	123	57



Estimated Changes in Employment
(In Millions)



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The number of people engaged in manufacturing, it is estimated, will be reduced from 18 million to 14.5 million. But 3.5 million people or so can be taken on by the construction industry which has been pushed down to a very low level of activity, not because we wanted it that way but because we have had neither the men nor materials necessary to keep it going.

Another large number of people will be added to the sales group, to distribution, and to finance. At the present time it is difficult to find things to sell and, since the government is the principal purchaser, we do not have to put forth any great sales effort. In fact, a great many sales people have entered the factories in one capacity or another; in our own particular company, for instance, we have appliance salesmen who are handling war assignments very capably. A great many people of that sort will go back to their sales business after the war. So we may expect all the reasonably employable people to find jobs.

Now both the dollar picture and the man picture are national pictures. Figures are not broken down, and you cannot expect the distribution in any one area to be as I have shown it here, nor can you expect the distribution in any one industry to follow the pattern.

GENERAL ELECTRIC'S PLAN

With that in mind, Charles E. Wilson, president of General Electric Company, has set up a committee, of which I am chairman, to examine this picture in terms of the General Electric Company. From this point on I am using General Electric figures, not because we think they are something to be particularly proud of, but because they are the figures I happen to have at my disposal. And I hope that these figures may indicate the way in which these statistics for the country as a whole can be applied to particular industries.

We shall start with the assumption that there will be full employment which will yield 110 billions of dollars' worth of production, and then we shall see what the electrical manufacturing component of that total amounts to.

We estimate that some 3 billion, 849 million dollars, more or less, will cover the electrical manufacturers' component but that part of that component will represent items that the General Electric Company does not happen to make, the largest ones being communication telephone equipment and storage batteries, which will add up to 838 millions. Then we will get down to the things of which the parent General Electric Company does produce a part. If we have estimates of the national market for those things and if we know also the percentage of the business which we can normally count on getting, we can construct a budget of probable business in the different departments of the General Electric Company. Then, when we match that business against our capacity and our personnel, we shall obtain a figure which represents the number of workers we shall need after the war. And the point is that some of the people now employed will be left over.

However, some of those people will not wish to continue with General Electric. The automobile salesmen will want to go back to selling automobiles;

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the garage operators will want to go back to operating garages; so we shall not have to contemplate keeping all our excess employees busy. But there will be some people in that group who were unemployed before, or maybe some of them will be youngsters just out of school, and they are the ones we shall wish to keep employed—the ones we shall have to keep employed if the country as a whole is to enjoy full employment. If we do not find work for them and if other companies in the same position do not find work for their excess personnel, unemployment will become a problem again. That means that the country will not reach the 110-billion-dollar output figure and that, in turn, the electrical component will be smaller than we have estimated and our share smaller. Then we shall find ourselves with an even larger group of excess employees. Thus the best thing to do is just to assume that we must find jobs for all the people left on our hands. We owe it both to them and to the country to do our best to provide for them.

GETTING DOWN TO CASES

As no analysis of this sort is very valuable unless you can get down to cases, we have tried to break the problem down still further and consider commercial apparatus in particular. Then we have taken a specific department "A," and looked at it in more detail.

There will be a 90-million-dollar national market and, as Department "A" can ordinarily expect to get some 25 per cent of the available business, it should be able to count on 22 million dollars' worth. On a war basis the plant has been expanded and now produces 30 millions of dollars worth; therefore it has an excess capacity, expressed in dollars, of 8 millions per annum, which represents some 1,100 men for whom we must find new work. And, since this particular estimate was made before Pearl Harbor, it is to be assumed that most of those people will wish to continue to work for us.

Now a department of this kind represents a problem. And part of the solution can be discovered by studying another department, one which is in a growing phase. For instance, we have one which is growing larger every year. In this $x + 2$ year now being considered, we expect a total national business of 225 millions, of which our share might conceivably be 15 per cent or 34 millions — double the capacity of that department at the present time. That happens to be one of the durable consumer goods types of departments, and it will be remembered that we expect a very large increase in the consumption of durable consumer goods after the war.

In the General Electric Company, naturally, there are many departments, and my committee's work has been to discuss the matter in detail with the management group for each department. We find out what each department's business is now, how many people it has now, how much business it expects to have, how many people and how much floor space will be required for that future business. Thus we get the picture for each department, and all these departmental pictures can be added up to represent the probable business of the General Electric Company.

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Departments making producers' goods, for the most part, show a probable shrinkage in number of employees and floor space required, although some of them expect slight increases. The consumer goods departments, on the other hand, will need more people after the war than they do now. Altogether, the figures (as of January 22, 1942) indicate that General Electric may expect to find itself with 5,000 employees too many. Moreover, since we completed that survey, the Federal Government has handed out many more large orders. Probably the picture will be affected adversely to the extent that the figure will have to be changed to 10,000.

We, however, do not think that means that we shall have to discharge 10,000 people after the war, since these calculations take no account of the number of people who will want to leave us anyway. But when we have deducted that number from the total, we have an approximate number for whom we shall have to find work. That does not mean that we shall have to put them to raking leaves; there is work to be done. It is more a matter of finding out what part of the work of the United States we in our organization, and those people in particular, are most fitted to do. We are hoping by this factual analysis to get a picture which will enable us to say to our people after the war: "We have planned exactly what we are going to do."

IN OTHER COMPANIES

That is the kind of picture we are trying to build up. As I have said, this is just our part; if we were to be alone, the whole thing would fall of its own weight. I am very confident, however, that this same kind of thinking is going on in many industries all over the country. I know of a good many specific cases; I also know of certain areas in which industrial managements are thinking about the problem as it affects entire communities. The Illinois Central Railroad, for instance, has been making a number of studies because it feels that the prosperity of the railroad depends upon the prosperity of the community; the New England Council has been studying this problem for a number of years because the movement of the textile and shoe business out of New England was a factor even before this war came along; the state of Pennsylvania had a similar problem which has been attacked by the Department of Commerce of the state.

So we have examples of work being done both by industries and by areas. It is our hope and our belief that these efforts will grow and spread over the country and that, as the results of them appear, they will constitute the solution that private industry is going to offer to this problem.

* * * * * *

Question: Mr. Prince, if you were in charge of a small concern or a medium-sized concern, how would you go about the same kind of planning?

Mr. Prince: It is my feeling that the way small concerns can handle the problem is to pool their information. If all the companies in a given area add up their figures, they should be able to get a balance sheet for their community.

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THE FUTURE OF DISTRIBUTION IN A DEMOCRACY

By EDWIN G. NOURSE
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UNTIL very recently we Americans have thought that sufficient unto the day of war would be the wisdom of our great country. The British thought the same thing. But now they know that as a result of their reliance on that sort of philosophy they have been confronted with a situation where the wisdom of the day proved insufficient, the planning of the days before grossly inadequate, and the slogan "Too little and too late" has rung around the world from Dunkirk to Singapore and now to Java.

And so, while a free, conscientious American must realize that the war has first place today and everything else must be made subordinate, we should not allow ourselves, in the light of this experience, to be unaware of the great importance of current events in the molding of the reconstruction period that is going to rush upon us immediately after the war. Whatever the period of negotiation, immediately after the "cease firing" order, we are going to be in a process of demobilization, of reconversion, faced with the problems of reemployment and of reconstituting our sales lines. We cannot afford to spend one, two or three years fumbling around, improvising, waiting to see what is going to turn up, and then try to hit on a plan.

That very view was recently expressed by one of our columnists. He commented on the fact that interest in postwar questions in Washington is "as low today as it possibly could be." He then goes on: "However, the very fact that Government is limited in what it can do now makes it all the more necessary that others carry on study and discussion. This is the period in which

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Since 1932 Dr. Nourse has devoted particular attention to a series of studies conducted by the Institute of Economics in the field of industrial organization and pricing, which has resulted in six related publications, running from "America's Capacity to Produce" to "Industrial Price Policies and Economic Progress." A sequel to the latter volume will be entitled "Price-Making in a Democracy." It is being introduced currently through a series of monthly pamphlets.

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specialists can be assembling the materials, surveying the possibilities, working over the possible lines of action. We can be building up a fund of thought which will not leave us totally unprepared to consider these questions when the opportunity does come."

PLANNING THE POSTWAR ECONOMY

That paragraph makes a very useful suggestion, that in our major working program we must be out "hitting the ball" of the war effort, but that we should direct a part of our thought toward keeping the war effort in its time perspective.

The work of The Brookings Institution has been to consider just that question. Although many of our men have gone into the government service, we have not decided to shut up shop because we believe that it is equally important that consideration be given to continuous analyses of pre-war problems, as well as the effects, the trends and the repercussions of war efforts and the modification that they will make in postwar conditions. We must project our thinking forward so that those who come back from the more active phases of the war will have ammunition for the reconstruction period prepared for them, with which they can at once launch the campaign for enduring peace and prosperity.

We can probably count on conditions favorable for a business revival immediately after the war. On the supply side, we shall probably have a country untouched by the devastation of war, its plants expanded and brought to the highest level of technical efficiency, its labor force recruited, retrained, revivified after the depressing experiences of a long period of slack employment, with new flexibility and cooperation in management developed out of war needs. On the demand side, there will be men returning from lives of deprivation, keen in their desire to spend and live more normally again; the rebound of everyone from wartime restrictions; the release of savings impounded as part of our efforts to keep down inflation. The details of the changeover, of course, will present serious difficulties, and there may be a certain amount of fear and uncertainty at the start. But business will be pulling with the tide and not against it.

The job is not going to do itself, however, particularly if these favorable factors are not to prove merely a "flash in the pan" and give us a short-time boomlet followed by new difficulties. Technically favorable conditions in both supply and demand must be converted not merely by engineering planning but by economic planning into solid and permanent business prosperity.

PROBLEM FOR MANAGEMENT

This is where management comes in, where the far-seeing sales manager and sound, well-considered price policies become the decisive factor in our economic picture. To see this problem clearly it is necessary to consider briefly the kind of business on which this early postwar prosperity is likely to be based.

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At the head of the list, I should put the business of putting our national fleet of 25 million or more motor cars back into everyday use. Perhaps second will be making up the deficiency in housing, which should include a considerable improvement in the general level of housing. Third will come the restoration of a varied stock of durable consumers' goods. To a very great extent the period of prosperity which is to come will be based on the dammed-up demand for durable consumer goods. On the waves of this favorable tide we can make great progress in the reconversion of industry.

But as soon as we get the 25 million cars (or whatever the number may be) back into our stream of transportation—with all the stimulating effect that will have on the auxiliary industries—we will very shortly drop back to the normal business level. The modern automobile is an eight- or ten-year car; if we prosper because we work at war speed (or war speed tempered down to full capacity speed) for about three or four years, then a four- or six-year period is bound to follow in which there is not going to be that same demand. And once the housing problem is met, this situation will again go into a technical or cyclical downturn.

CAREFUL USE OF GOVERNMENT RESERVES IMPERATIVE

It must be recognized that whatever complementary purchasing power the government has, care should be taken not to draw upon it in those first postwar years when the situation of normal business will be relatively at its most favorable point. Government reserves should be held back, and a serious effort should be made to service the large national debt, holding it at a level compatible with a sound general business situation, and reducing it as soon as practicable. Those are the years when we should put our house in order and permit government, after its period of intense activity and extraordinary aid and responsibility for the war effort, to have a period of rest. Then it will be ready, during the next downswing of the cycle to be of help through public works or other projects.

In the consideration of postwar readjustment, there are many elements which will influence eventual economic stability. For instance, if after the war, producing industry will deliver the full-scale product of American industry, will our country be able to handle such a volume of business? As the sales managers of the nation, we must say, "Yes, we know how to distribute. We know how to price a package, channel it, and put it out. We will see that your goods are delivered." And most important of all, we must be ready to accomplish just this.

As a citizen and as an economist, I am very much encouraged with the great increase of positive attitude on the part of individual firms, of regional bodies and of industrial groups. I am much encouraged that production is to be resumed under that sort of philosophy and that sort of policy. I believe that the distributive organization of this country—the sales organizations and sales managers—is capable, when it has taken the measure of the task, of de-

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vising means of carrying it out, of supplying the other half of that great projected performance.

If we turn back, in the spirit of Calvin Coolidge, to "normalcy," back to the old channels and costs of distribution, back to the old outlets, I think our performance will fall below the level of which we are capable and which the task demands.

We must recognize that the old system involved many wastes—heavy distributing charges, for instance—and we cannot afford to return to those wasteful practices if we are going to move such a great volume of goods into a market at prices the potential consumers will be able to pay.

There probably will not be a sharp break between the war period and the postwar period. The things being done now, the schemes that will win the war, will contribute very substantially to the continuance of the present high plateau of performance.

WARTIME PRACTICES ELIMINATE WASTE

With war going on it is not possible to follow the roundabout routes of distribution. The distributive expense which has often been exorbitant is no longer tolerated. Many similar practices, strongly established and with vested interests acquired, are terrifically hard to eliminate in normal times, but in many cases the war has made possible a streamlining of methods, elimination of costs, and a cutting-through of more direct routes. There has been paring down of expense, and simplification of packaging and servicing.

During the continuance of this war, each time a short-cut is developed, every time a bit of friction is eliminated, a bit of unnecessary distributive cost done away with under the pressure of the war, it should be carefully noted for future reference. In each instance the query should be, "Is that something which can be relied upon after the war to keep distribution costs down, hence to keep prices down, hence to keep volume up, and hence to maintain employment on the full-scale basis that the producers demand?"

From the standpoint of consumer goods, another question is this: Where is the customer to be found? One of the larger manufacturers of consumers' durable goods in this country is attacking the problem right now by saying, "We are not going to expect the kind of market that we had before, and we are not going to prepare for such a market. Our prime question, as the war goes on, is to determine what is happening to the consumer market. Let us keep revising the picture of our new postwar market."

The first conclusion to which the management of this company has come is that there will be a smaller place in the new market for the luxury type of product. If there is a weakness to which the producing end of business is somewhat prone—and it grows out of its very strength—it is a tendency always to make a better, a more delightful, more attractive and appealing product. But that frequently means appealing only to the well-to-do. And so the new policy of this firm is undoubtedly an excellent one.

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The first thing for a sales organization to do in facing its postwar problems is to apply its utmost ingenuity to ferreting out the widest possible sources of sales outlet and then to face frankly the limitations of the market.

Here is a problem which cannot be answered entirely by the sales force, as it is also a problem of the production department. But the production department is primarily a technical, engineering, designing sort of organization. They cannot possibly know what the desires and the limitations of the market are, except as the sales organization goes out and brings these realities back to them.

PRODUCER-DISTRIBUTOR COORDINATION ESSENTIAL

In order to keep up the volume of production necessary to maintain employment, it is, in turn, necessary to keep prices at the lowest possible level by passing on to the customer the results of increased efficiency. If the production department is going to deliver goods for distribution, then it is up to management, on behalf of the purchasers, to provide an honest and scientific gauge of the exact amount certain groups of people distributed throughout the various income brackets can afford to pay, and how this spendable income is going to be distributed among various classes of commodities.

Management is, in a sense, the purchasing agent for the consuming public. And, as purchasing agents, it is quite right that you should have the interests of your clients at heart—that you should try to get your client the most for his money. In doing this, you are serving the production department at the same time, because they cannot accomplish their task properly without becoming thoroughly aware of the actual purchasing power level, on which you are the most expert adviser.

THE POSTWAR PERIOD

The period after the war, in many ways, will be quite favorable for business. That favorableness, however, is going to be very unevenly distributed. In certain classes of necessities, purchases will be maintained (demand must be satisfied under war conditions almost as much as in peacetime). In other cases there is going to be a tremendous curtailment of demand coupled with a considerable impounding of purchasing power. There are going to be some pretty nice spots in the selling market after the war. There are going to be places where you could be mere order-takers, where you could follow the old rule of charging what the traffic will bear.

However, that is a danger which should be sternly resisted. That is a point at which you can perform a very great service by making yourselves unpopular in the administrative offices of your companies. It is pretty hard, when the tide is running your way, and when you can sell your stuff at almost any price to people who have been deprived of it for some time and who are not going to quibble very much about the price, to go against that tide. But if you simply ride the tide or pull with the tide and allow prices to run up, if

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you take it the easy way, you are simply absorbing an undue share of the purchasing power in that particular channel, taking care of that particular class of production problem and the employment problem of those particular companies at the expense of others.

It is highly important that demand shall be satisfied at the narrowest margin of profit which is consistent with efficient handling and skilful manufacture; it is highly important that purchasing power be not concentrated only in favorable channels, but that it should be sparingly used to make markets for as many other items of goods as possible in order to assist in the restoration of those lines and facilitate the shiftback of labor and capital to other lines of manufacture. Many companies will be having not merely to resume the level of pre-war employment, but they will be taking on the responsibility of added employment.

Finally, perhaps you have wondered how the word "democracy" got into the title of my talk. That was, I believe, because the book on which I happen to be working at the present has that word in its title and I want, in closing, just to emphasize the fact that it *is* a democratic ideal about which I have been talking. There has been much discussion about the saving of democracies. We don't merely save the Democratic Party or a technically democratic system. What we do mean to save is a system which will serve all the people, a system in which managers of business accept the responsibility of organizing the material and human resources of this country, so that everybody may have a chance to work to satisfy his wants and those of his family. And that means adjusting the price structure to the income structure, providing goods in the very lowest income brackets as well as in the de luxe market that is always so very tempting for everybody. It means fashioning goods which are as satisfactory as it is possible to make by mass production for the lower ranks of workers who make up such a large part of our total population. If we are to have full-capacity operation and the highest standard of living for all our people that can be created out of the available productivity, the poorest, the least efficient, the marginal workers, as well as the cream, must be considered.

The period after the war is going to present a task of aggressive, flexible, democratic selling to match the full-capacity production which is being projected by the Business Advisory Council together with the Department of Commerce, and which is coming to be talked about all over the country. That is the bill of goods being sold our people for the future—and I am betting on you to deliver those goods to the country.

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TRENDS IN WARTIME SELLING

Advertising—Market Analysis—Product Adjustments

BY

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THE EFFECTS OF WAR ON CONSUMER AND DEALER MARKETS

By L. C. HART
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BEFORE discussing the effects of war on our markets, let us first consider marketing research in a normal economy upon which the war has exerted such a revolutionary influence. This influence has been revolutionary mainly by virtue of its abnormally rapid action. Just as the decade starting in 1930 represented an era of social revolution, so the decade starting in 1940 saw the beginning of an economic revolution. Without any doubt, the latter was induced by the inauguration of our national defense program, subsequently greatly accelerated by our entry into the war.

Reviewing the development of marketing research as a management tool, my own experience goes back to 1919 when, as sales manager of our Western Division, I was associated with a group in Chicago in the organization of a sales managers' luncheon club. At one of our weekly luncheons, a member of our club discussed a newly developed technique for appraising the market for cream separators. This analysis was based on the number of cows in the United States, broken down by counties. That rather simple, though perfectly logical, principle is cited as an early example in the development of the science of marketing research.

Subsequent refinements have expanded that simple principle to provide, in addition to information on population, data applicable to practically all types of industry and commerce. We have added to our market data such factors as passenger car registration, telephone subscriptions, income tax payments, bank deposits, new building permits and similar yardsticks for determining consumers' "spendable" income or buying power and relative standards of living. In the industrial field, data are also available on factory payrolls and value added to raw materials by virtue of manufacture.

However, regardless of the progress made in appraising our markets by

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In 1935 Mr. Hart was appointed general sales manager, and in 1940 was elected a vice president, continuing, however, as general sales manager of the Building Materials Department, which position he now holds. He is at present completing his twenty-eighth year of service with Johns-Manville.

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the intelligent use of these valuable data, recent thinking has brought about a transition from theoretical to more factual techniques. While a careful study of all these factors serves to provide a basic, standard pattern for the appraisal and location of our consumer, dealer and industrial markets, nevertheless it is at best only a pattern. It tells us where the people are who *should* buy our various products and the extent to which they are *able* to buy. It furnishes, however, no assurance that they actually *do* buy them.

ESSENTIAL POINTS IN MARKET ANALYSIS

Complete market analysis, to be adequate as an effective guide for management, should perform two major functions: (1) disclose and identify sales opportunities, geographically and quantitatively, and (2) provide evidence or proof that these opportunities are factual. The second phase of analysis is an authentication of the first. Only by such means can we hope to impress upon our field selling forces the validity of our objective forecasts and quota assignments.

Far too often this basic analysis has been used negatively rather than constructively. Management and salesmen have too generally considered market analysis a method of disclosing "weak spots" and shortcomings, a procedure directed toward "pinning" responsibility on someone for inadequate performance.

The true purpose of analysis — the only purpose sufficient to justify the time and effort it requires — is to disclose *real* sales opportunities. The one most practical way to get a salesman to increase his volume is to show him a specific place where he can secure orders, then show him *when* and *how* to do it. The real significance of a so-called "weak spot" is simply that it calls attention to a place (and account) where new business or bigger business *can be secured* by the right kind of selling and supervision.

Unless both management and salesmen approach all territorial analysis as a search for sales opportunity, the analysis defeats its own purpose and does more harm than good.

Adequate market analysis must therefore answer the following questions in a factual manner:

1. *Where* should major effort be concentrated?
2. In those locations, on *what products* in the line have we *missed* our best opportunities in the past?
3. In each instance, what is the most practical way to capitalize on those opportunities?
   (a) Building up *present* outlets?
   (b) Securing *new* outlets?

Market analysis, properly conceived, should be a continuous, year-round activity. Only continuous analysis and prompt revision to cope with changing trends in the light of latest obtainable data can produce the most effective results.

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Assuming that we have developed adequate information and data on theoretical sales opportunities, usually termed "potential," from the first phase of market analysis, how, then, can we authenticate those opportunities by factual evidence as required by the second phase of this research? It is in this second phase that we can measure, partially at least, the "effects" of war and similar abnormal emergencies on our dealer, industrial and consumer markets.

Authentication of theoretical "potential" markets has been made possible only in recent years by a broad expansion of the services of the United States Department of Commerce, in its Census of Distribution.

This service was started in 1929, on an experimental basis, as a part of the 1930 census. It was about half completed in 1933 when funds were depleted, and it was finished on a voluntary basis. As a result, findings were not entirely reliable. In 1935, however, the business Census of Distribution was brought up to date with an improvement in classifications. In 1939, this census was taken again by experienced personnel on the improved classifications and may be considered quite reliable.

The following are some of the classifications on which reports of total retail sales are available through the Department of Commerce:

1. Food group — including groceries, bakeries, delicatessens and dairies.
2. General stores, with food — typical of the rural general store.
3. General merchandise — department, dry goods and variety stores.
4. Apparel group — clothing, shoes, furnishings and lingerie.
5. Furniture, household, radio group — including interior decorators, household appliances and floor coverings.
6. Automotive group — including new and used cars, accessories, tires and batteries.
7. Gasoline filling stations.
8. Lumber, building material, hardware group.
9. Eating and drinking—including restaurants, bars and soft drinks.
10. Drug stores.

The Census of Distribution reports include the number of stores and dollar sales at retail for each classification, broken down by counties and by towns of 2,500 population or more. Naturally, there is bound to be some duplication by virtue of expanded lines in several of these basic groups. However, by an intimate study of the various groups in which overlapping occurs, and by comparison with actual production figures available within most industries, a fairly accurate nationwide estimate can be made of actual sales. The sales by counties or towns can then be determined by application of the relative ratios provided by the county or town reports.

Since such a business census is taken only at intervals of two, three or four years, the question naturally arises, "Of what value are figures on the year 1939 in making market estimates for 1942 or 1943?" That is a perfectly logical question which, fortunately, was anticipated by the Department of Commerce. They established some years ago a special division, known as the "Current

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Statistical Service," which has developed a technique whereby current information on sales trends can be determined. Their first experimental efforts were quite "thin," but by 1939 they had developed a reliable sampling procedure. This service now covers 34 states and gives the *percentage change*, plus or minus, for each sampled state by most of the classification groups, as compared with the previous year.

By direct application of these *current trend* percentages to actual retail sales for a census year, a fairly accurate forecast of sales by states can be determined by the simple process of trend projection. Further refinements can then be applied for counties, towns or trading areas within each state by local "inspection" surveys. Usually, territorial salesmen are in an excellent position to provide the necessary data for such refinements as a result of their contacts with the local trade.

Another question to arise may be, "I manufacture only one product, on which no specific reports are available from the Census of Distribution. What measuring stick can I use to determine the relative value of my existing markets?" The answer to this question must be conditional, depending upon the nature of the product as a staple or a specialty. If a staple, there is undoubtedly some parallel relation to a standard classification of products or retail outlet. From this relative parallel, plus some knowledge about the total annual sales of the commodity, usually known within an industry, the approximate distribution of the geographical market opportunities can be determined.

ADJUSTMENT TO CONSTANT CHANGES ESSENTIAL

By such a combination of theoretical data, substantiated by factual reports, both major requirements of intelligent market analysis are satisfied. This is entirely adequate for normal years and for "reasonable" fluctuations from year to year. However, the dislocations in business which we have all experienced during the last 20 months as the result of defense activity and the subsequent wartime emergency, can, under no stretch of the imagination, be considered "reasonable." To illustrate the unprecedented rate of change which has taken place, far beyond the fluctuations in the last World War, it is necessary only to check the violent upward trends of our national income and indices of production. Our national income, which in normal years would vary between $60 and $70 billion, rose to $90 billion in 1941; it is estimated that it may reach $100 billion in 1942 and has been forecast to reach or exceed $125 billion in 1943.

The United States Index of Production, which stood at 110 in 1929, reached a low point during the depression, reacted to 80 in 1938, rose to 169 in 1941, is expected to reach 190 in 1942 and is now expected to approach 200 in 1943.

In view of these violent changes, there is probably no agency in industry or government with adequate facilities to assemble, collate and publish market reports with sufficient promptness to make the data usable, as it often becomes obsolete almost overnight in an emergency of the present type.

Therefore, it is necessary to subdivide our tonnage production into two

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groups, one for defense or wartime reserve and the other for service to our normal trade. In many industries, it is already recognized that the requirements of the wartime reserve have greatly diminished the tonnage remaining for service to the normal or peacetime trade. The wartime reserve production will, of course, be distributed in accordance with the demands of the specific government projects, all of which are quite prominent and easily identified. For the balance of the production to be released to normal trade, two measures of allocation are available. The manufacturer can allocate to the trade either in accordance with the geographical percentage guide developed by his own analyses or from reports of the Census of Distribution, or on the basis of known former purchases of his trade taken from the manufacturer's own records. This choice will be dependent upon the manufacturer's desire to continue his temporarily interrupted development of new markets which have responded favorably to promotional activities, or the recognized necessity of maintaining the good will of well-established trade outlets for the duration of the emergency. In the latter case, it will probably be necessary to postpone the development of new markets until the start of the postwar period except when a more desirable new account is available in an already established market.

ALLOCATING PRODUCTS TO DEALER OUTLETS

We as sales executives should not forget our constant responsibility to improve distribution wherever such improvement is possible. It might be preferable, therefore, to allocate whatever excess production is available, no matter how small, to important markets, rather than to individual accounts. In those markets where past dealer representation has been inadequate or where existing customers are not the most desirable, the present situation offers an excellent opportunity to negotiate more favorable franchise agreements. Proper dealer outlets should be analyzed for improvement in a time of emergency in the same manner as would apply in normal periods.

Although no up-to-the-minute trend revisions are immediately available because of the violent market dislocations of recent months, these statistics, though not applicable to any one classification of products, will, nevertheless, illustrate the relative extent of such dislocations. In this analysis, the year 1936 has been taken as normal and uninfluenced by boom, depression or wartime emergency. The year 1940 has been considered one of transition in that the effect of the defense program began to make itself felt in industry. The year 1941 was definitely dominated by the defense program.

Considering the distribution of our population as the simplest measure of our markets, it is interesting to note that the sections designated by the government as "critical" defense areas represent only about 25 per cent of our total square-mile area, while according to the 1940 census the "critical" areas contained approximately 64 per cent of our total population. Extensive migration of skilled and unskilled labor to the defense areas has subsequently increased this percentage considerably.

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Area	Distribution of Population	Distribution of Sales (1936—Normal)	Distribution of Sales (1940—Abnormal)	Distribution of Sales (1941—Abnormal)
New England	5.3%	5.3%	6.1%	6.3%
North Atlantic	12.9	16.8	16.3	16.9
Middle Atlantic	9.2	9.2	10.9	11.1
Southern States	20.3	13.2	14.9	14.4
Mid-West States	41.3	43.2	38.8	38.0
Pacific Coast	11.0	12.3	13.0	13.3
Total	100.0%	100.0%	100.0%	100.0%

Interpreting the above figures, it may be noted that:

1. In a normal year, sales may be expected to follow rather closely the distribution of population in all sections except the North Atlantic and Southern sections.
2. In the North Atlantic section, sales run ahead of population, influenced by the relatively high buying power of the New York metropolitan area.
3. In the Southern States, the reverse is true, reflecting the diminished buying power occasioned by the high percentage of negro population.
4. In the abnormal years, 1940 and 1941, the distribution of sales appears to be quite uniform, with little change from 1940 to 1941.
5. However, the distribution of sales during the defense period of 1940 and 1941 has shown considerable dislocation compared to a normal year like 1936. Increases are noted in all areas except two, the North Atlantic Section, which appears to be traveling on an even keel and the Mid-West, the only area showing a decline. The Mid-West, which contains such a large portion of our rural and agricultural territory, taken as a whole, apparently has not enjoyed a proportionate share of defense projects.

Shifts in population can be appraised in each local defense area by a quick check of housing shortages or the local vacancy ratio.

The increased buying power of labor can be estimated by a local check on weekly industrial payrolls through banking channels or the Chamber of Commerce. The decreased buying power of white-collar workers might be considered largely offset by their present inability to purchase automobiles, tires and other commodities upon which restrictions have been placed.

The impact of current changes on dealers can be appraised only by local inspection through the contacts of our field salesmen.

The policy relative to the solicitation of new accounts will be determined largely by the availability of our products in excess of actual defense requirements and allocations of such excess production.

Sales planning definitely depends upon the day-to-day flexibility of our thinking in the light of rapidly changing circumstances in each individual trading area.

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Truly, these problems do present a task of unprecedented magnitude for sales executives.

This study is, of course, quite general in scope but time does not permit a further breakdown into individual states. Anyone interested in an analysis of defense and wartime activity by states can secure a reprint of such an analysis, "American Business Goes to War," from the December 13, 1941, issue of *Business Week*, 330 West 42nd Street, New York City.

In this presentation, it has been my earnest endeavor to discuss the problem of market dislocations in as broad a manner as possible, to fit general industry and commerce. I would presume neither to offer any magic formula for its solution, nor to dictate how market research techniques should be revised or refined. It is hoped, of course, that the discussion may serve to stimulate thinking along lines that may prove to be mutually beneficial.

Furthermore, in view of the supreme national crisis which has developed since we made our plans for this conference, such problems as these have become almost trifling in importance, and our endeavors along these lines seem relatively futile. However, it behooves all of us in industry to rededicate our efforts in "the last full measure of devotion" to the task of winning the war, with the abiding faith of a Christian civilization, so that, when we emerge victorious and enter the postwar period, sufficient unto the day will be the inspiration thereof.

* * * * * *

Question: Mr. Hart, how long do you think it will be before these migrants will return to normal? Are we going to have a lot of ghost towns falling to pieces, or will we be able to find new industries to occupy these new plants?

Mr. Hart: I feel that it may not be before 1944, or some time in 1945, that we will see any letdown from this maximum war production.

On the question of ghost towns, I think that the use of demountable and prefabricated houses will offer the solution when labor does return to its normal peacetime abodes. These "emergency" houses can then be transported to other industrial centers or used for slum clearance.

Question: Has anybody been able to make any accurate or reasonable approximation of the total dislocation of population? Since most of the development of war production has come from manufacturing facilities already existing, has the total dislocation in terms of population as a whole been consequential?

Mr. Hart: Our company has approached this problem by making a check on local defense or war projects. With a field organization such as ours and with the projects as prominent as they are, we usually can determine the

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approximate number of people added in any trading area by virtue of the existence of a specific project.

To give you a specific example from our own experience (and I could give you 12 or 15 such examples), our company has undertaken, as you may know, the manufacture or loading of bombs and shells at Parsons, Kansas, a town of a few thousand population. We have built a plant there for the government covering 25 square miles, containing 400 buildings and 85 miles of railroad track within the property, employing between 8,000 and 9,000 people. We brought in a large percentage of the 8,000 employees from other surrounding sections. Where they came from or how to measure the diminution in the other localities from which they came would be very difficult to determine.

Member: I have not found any appreciable increase in vacancy ratios in places where they do not have a great deal of war production.

Mr. Hart: The War Production Board in Washington can provide you with a list of the demountable and prefabricated housing defense projects by specific location. By estimating the number of people, average per family, and multiplying that by the number of houses for which appropriation has been made, you will find some measure of the population increase. Again, I do not know how to measure the diminution.

ADVERTISING POLICIES IN A WAR ECONOMY

By JOHN H. MORSE
Chief, Division of Commercial and Economic Information
Bureau of Foreign and Domestic Commerce

GENERAL trends in wartime advertising, which are already discernible abroad, have either begun to take shape in this country or will do so soon. How far we may have to travel along similar lines depends upon how long it takes us to lick our enemies. The longer it takes, the more numerous and more drastic will be the changes imposed on all phases of our economy—including advertising—by the necessities of war.

One primary question to be answered, perhaps, is whether or not advertising should be continued during the war. We think that it should. But we also believe that advertising should be planned to contribute to the war effort; nothing that we may wish to do must be allowed to interfere with the winning

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of the war. Should selfish concern with normal activities cause us to fall short of even one bullet needed to annihilate our foes, then none of us will need to worry about advertising policies or about postwar plans: Both policies and plans will be dictated *to* us, not *by* us.

How war engulfs advertising activity is illustrated by the advertising carried in six leading British papers for the first week in December during each of the past four years. In 1938, the total was over 53,000 column inches; in 1939, the space used had dropped to about 32,000 inches; by 1940, it had nosedived to only 13,350 inches, and during the first week of December, 1941, was slightly under 10,000 column inches.

What portion of the decline may be attributed to the decision of advertisers to restrict or cease their advertising, and what proportion arose from the limitations on the use of paper, is impossible to estimate. Recent reports indicate that there is a demand for more space than is available, even though one estimate of the current volume of all advertising in England places it at about one-fifth of the pre-war total. This estimate is close to the change in the newspaper lineage figures just cited. It is entirely possible that we in America might experience a similar reduction by the time we are in our third year of war. Let us hope that we shall not be forced to this.

The restrictions on the use of paper have greatly affected other types of advertising in Britain. Magazine paper allotments have been cut 22½ per cent—perhaps more by now. Costs are up. The quality of paper is lower. Labor in the printing field is scarce.

The use of posters has been greatly restricted and their size limited; package inserts have been prohibited; store catalogs and free advertising circulars (except for books and seeds) have been either prohibited or restricted to a small percentage of the number distributed by a concern during a definite period in the past. A complete list of restrictions would be too long to present here. In fact, the Bureau of Foreign and Domestic Commerce has just sent to the Printing Office almost 200 typewritten pages on the effects of war on British marketing, most of which have influenced advertising.

Similar trends are in prospect here. This means that one major policy for every advertiser should be *flexibility* . . . perhaps we might even add *agility*, so that we can quickly adjust our plans and procedures to the many "have nots," "musts" and "must nots" that will increasingly change our accustomed modes of business.

Fortunately, advertising *can* contribute to the war effort in many ways. It need not permit itself to be classed as a wartime non-essential. Two major jobs can be shouldered by advertising at this time. One of these jobs (and a job that *is* being undertaken by more and more advertisers) is that of providing information to those fighting on the home front and in the production armies—information which will help them in every possible way to increase the production of fighting tools and to achieve more efficient use of products for civilian needs.

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This includes data on better ways of using machinery; on time-saving methods that can be widely adopted; and on labor-saving made possible by new attachments or new operating tricks. Advertisers, with the help of their advertising agencies and trade papers, can unearth numerous items of helpful information which the readers of advertisements will be grateful to them for passing along. It may well prove that doing this job successfully will call for the use of more and larger space in the trade press than would be required in a selling type of campaign. It is a type of advertising that specializes in long copy—long enough to tell the whole story.

Other opportunities to utilize informative advertising will appear as the war progresses. For example, we are nearing the time when a vast increase in the number of women workers in industry must be accomplished. Manufacturers of equipment can anticipate this and can begin now to develop training plans or new gadgets to aid women in using heavy machinery effectively.

PROMOTION OF SUBSTITUTE PRODUCTS

There is also much to be done in developing alternative products—for present alternative products—and in passing the word along in advertising. Requests for lists of substitute products reach the Bureau of Foreign and Domestic Commerce in ever-increasing volume. We know that spreading such news to industry would create considerable good will.

In the consumer field there are numerous opportunities — increasingly seized on by advertisers — to keep the home front informed of food values and of new ways of preparing and conserving foods . . . of alternative products and how to make them suffice . . . of ways of lengthening the life of articles which cannot be replaced before the war's end . . . of repair programs to keep home appliances operating. It is a sound advertising policy to see that your company becomes known for aid of this type.

In pursuing a policy of more informative advertising, we are restoring advertising to its logical place in the selling program; we are retreating from the dangerous position of asking it to do more of the selling job than it should. Naturally, the selling load which advertising can successfully assume in the cigarette field is vastly different from what it can assume in the sale of steam shovels. But in the halcyon days which ended in '29, and in the period since which ended at Pearl Harbor, advertising was *too* often asked to do *too* much. That may be one of the reasons why there have been so many attacks upon it. A low-pressure, helpful policy now is likely to heal many rankling irritations.

There is another field in which advertising, skilfully handled, can contribute to the war effort. We read and hear much about this being a war of machines . . . a battle between production lines. That is only part of the picture. This war will be won and lost where all other wars have been won or lost . . . in the minds of men and women. Minds must drive tired muscles on, or production machinery stops and the fighting forces lack the tools for winning. There is a big job for advertising to do in keeping courage and hope

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and determination alive in the minds of those on the production lines and of those behind the lines.

Much of this can be accomplished by supplying informative material. Much can be done, for example, by telling the story of the growing might of industry in war production. This can be accomplished without giving aid to the enemy — indeed, it can add to his discomfiture. Such a story can be presented in percentages, perhaps. Tell America about it — until the people feel a surge of confidence in the achievements of industry. English industry is carrying on in that style; it should be the policy here.

Much can be accomplished through the tone and spirit of illustrations and copy. More "Damn the torpedoes"—the traditional, sturdy American aggressiveness — the policy of attack rather than defense, of daring rather than security and waiting. More of the spirit which seeks only security of opportunity. No man wants more; no one should settle for less.

English general advertising has been characterized particularly by a humorous twist — a light thumbing of the nose at hardship and danger which lifts the spirit of the reader and creates a very friendly feeling toward the firm whose products or name are thus advertised. We might well have much more of that type of advertising instead of heavy "prestige" or "institutional" copy. And now that the accent on immediate sales has ceased at least temporarily (though, we may hope, permanently), the "we've got to do without" conservation type of copy can also be brightened by a light touch.

MAINTAINING DEFERRED DEMAND

There is another job for advertising during the duration, while the shelves or the showrooms are empty of goods. We hear talk of deferred demand that is going to leap out of the brush as soon as the cannons cease. One trouble with deferred demand, so far as we have been able to measure it, seems to be that when it is deferred too long *it dies*. People's habits change; they forget how much they desired many things; they become rooted in different ways of life. Advertising can maintain the spark of life in deferred demand . . . keep it flickering gently until the United States returns to our usual "stimulated" peacetime demand economy. The word "stimulated" is used advisedly, for we did not build our standard of living on the normal demands of human beings; we have had a *stimulated* economy throughout our lifetime. Advertising has been the great stimulator, and now is not the time to shut off the spark that has energized America.

Let our people have glimpses of a promised land full of products after the war. We may soon find, as has been the case in England, that the average person has more money than ever before in spite of taxes. With domestic consumption in most lines cut about a third in England, because there are so few things to buy, savings and investments are growing. That will probably happen here also. In addition, the mortgage on future sales represented by instalment payments on past purchases will be entirely liquidated.

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Since it is practically impossible to establish advertising policies for a war economy without weighing postwar possibilities, I should like to touch briefly on our Bureau's approach to postwar planning.

We look on the postwar period not as a problem but as an opportunity—an opportunity for American business to keep the world's largest production plant at work. We know that we can create products in endless variety and quantity. Indeed, the good job we have done in the past in distributing our products is one of the main reasons for our present predicament. Advertising might be held partly to blame because it helped to make too many people desire a lot of things which they could not buy.

The lack of enough customers in 1929 pulled the bottom out of things. For the ten years following, business seemed quite willing to let government create its customers. At least, business did not evolve any workable plan to create sufficient customers to operate at a satisfactory rate. It scored amazing achievements in developing new products and improving old ones; then it went out and sought the same limited group of potential buyers.

As we determine our advertising policies in this war economy—with an eye on the postwar period—let us consider what American ingenuity might produce if it put as much thought into creating more customers . . . more people with the money in hand to buy more goods . . . as it has put into creating products in the past. Think of everyone in the nation as a *customer*. We have no greater common denominator for all classes in our economy—farmers, manufacturers, merchants, workers, government employees, lawyers, doctors, artists—than their universal status as potential customers for the services or the products of other groups.

DISTRIBUTORS AS CUSTOMERS

Indeed, the agitation over distribution costs overlooks the fact that distributors are also customers. No one stops to ask what kind of a load we should be throwing on relief if we eliminated those who plan, manage or labor in our distributing system. Perhaps even higher percentages of the purchasers' dollar should go to distributors . . . and the producer should make up for this by increasing volume or by switching to products more in demand.

Certainly there have been and still are disparities in returns to various groups of our population. Inordinate profits have been extracted here and there, in many instances, and as a result the entire economic system has been slowed down. Costs have been too high in some cases. But merely shifting too much advantage to a different group will not keep our economy working at the feverish pace required to utilize fully our present productive capacity.

Consequently, in formulating advertising policies and plans, explore this idea of the great common denominator of all our activities — our universal status as customers. Consider the idea in its relation to your own business, in which, by employing men and women in all types of jobs, you are creating customers for the farms, for transportation facilities, for public utilities, and for all other sorts of businesses.

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Whether its chief emphasis has been on profit or on product development, business has been the greatest force for social good this nation has ever seen. With all its faults (and its faults have been mostly those of the human race) the American system has achieved more human satisfactions, produced greater living comforts, and distributed good living over a broader scale than has any other system evolved by man. Today we should examine every phase of it and ask, "Isn't there a better way of doing this, or making that?" "Can't we do a little redesigning here and there?"

Now that great changes in our accustomed modes of living have been forced upon us by an enemy who will go the limit in his attempt to cause an even greater — and, he hopes, a permanent — change in *all* our ways of living, we should not be afraid to tackle the problem of creating more customers. Picture the profitable activity that will result if business aligns its plans for the future to the chief objective of creating more customers.

As the war economy matures, there will be time to look ahead and explore these possibilities. This may lead us to establish advertising policies which will speed up the process of converting the United States to postwar plenty by "selling" the public on the real part played by business . . . just as advertising in the past has speeded up the distribution of products throughout our economy.

NEW USES FOR ADVERTISING

By L. ROHE WALTER
Advertising Manager
The Flintkote Company
New York City

"THE great thing in this world is not so much where we stand as in what direction we are moving. To reach the Port of Heaven we must sail sometimes with the wind and sometimes against it — but we must sail, and not drift nor lie at anchor."

In no field do these remarks of Oliver Wendell Holmes, the Autocrat of the Breakfast Table, apply more aptly than in the merchandising of goods, services and ideas. Here, too, the great thing is not so much where we stand today as in what direction we are moving.

"Where does your business stand today? Where is it going? Buying difficulties will increase until we have finished this war — not decrease. Today's demand for goods exceeds the supply. Now we have a sellers' market, but sellers' markets never last long. How will the approaching era of scarcity— with the average household having fewer supplies on pantry shelves, different

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menus for dinner, smaller wardrobes in closets, and jacked-up cars in garages—affect American living habits? How will changing markets, material shortages, changes in advertising appeals, price adjustments, travel restrictions for salesmen, taxation, and a host of other problems bedevil both buyers and sellers? What should and can be done by both to meet these problems?"

These disturbing questions are at once both the nub and the imponderables of the problems that face us all today, complicated as they are by the realization that perhaps the most critical of all present-day shortages is the shortage of *facts* upon which realistic decisions can be based.

As an amateur Nostradamus, and a very humble one at that, I believe that despite the complexity of the present business outlook it is still possible to determine certain basic trends that presage the shape of things to come. Undoubtedly the days ahead will be trying ones, taxing brains and nervous systems to the utmost. In such times, when the business kaleidoscope daily develops new and peculiar combinations, old methods may be obsolete and established precedents false guides. Alertness and adaptability may well be the sales executives' watchwords; an intelligent, opportunistic approach to problems the basis of the operating policy; and competence, imagination and resourcefulness the stepping stones to bold achievement.

TRENDS AND IMPLICATIONS

Before attempting to highlight some of these factors so vitally affecting today's economy, let me remind you that subtle yet important distinctions prevail in every sales situation; that these varying conditions, not apparent to the laymen, make each selling problem different in much the same fashion as thumbprints, which look alike to the inexperienced eye, possess characteristics promptly recognized by the Bertillon expert. Obviously, in reaching general conclusions it is more than ever necessary today to analyze individual sales situations and determine wherein the differences are and how they affect the proposed solution before adopting the merchandising principles, practices and procedures these observations of basic trends might suggest.

1. In 1942 the approach of most manufacturers to their markets must be based on the attitude of "not how much can be sold but rather how much can be obtained to sell." In other words, the problem may be more one of delivery than of selling.

THE AUTHOR In addition to serving The Flintkote Company as advertising manager, L. Rohe Walter is president of the Direct Mail Advertising Association, Inc. Previously Mr. Walter was an account executive of The Blackman Company, New York advertising agency, and worked on the sales and advertising problems of Procter & Gamble, Vacuum Oil Company, United States Rubber Company, Lehigh Portland Cement Co., and other clients. Later Mr. Walter became sales promotion manager of *National Geographic Magazine*, and for several years acted as marketing consultant for leading firms. During the past five years he has served in his present capacity with The Flintkote Company. Sales promotion campaigns prepared under his direction during this period were awarded recognition as "Direct Mail Leader" campaigns in 1936, 1937 and 1938.

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2. Estimates of our national income for the fiscal year 1943 approximate 105 billion dollars, possibly more. Fifty-six billions of this total will go for the war effort. Forty-nine billions remain for consumer business. As competent and realistic an authority as C. B. Larrabee, president of Printers' Ink Publishing Company, stated in Boston recently that two-thirds of the American manufacturers "still operate in a market where intelligent advertising and selling are desirable. The figure may, probably will, grow smaller, but not so rapidly as some panicky prophets would have us believe."

3. Up to Dunkerque, Britain and Canada thought they could carry on business as usual while fighting a major war. We learned the fallacy of this reasoning on December 7 at Pearl Harbor. As a result, our national assets are being mobilized more quickly than most people realize — and we will win this war, after tremendous effort, more quickly than many people now believe possible. Sellers' markets never last long, anyway — this present sellers' market may prove to be shorter-lived than the average. Recently *Forbes* polled a large group of outstanding executives. Their combined opinion was that this war would end in 1943.

4. Every major war in the past has brought about sharp increases in commodity prices and consequent inflation. While consumers' income in the fiscal year 1943 will exceed the value of goods available, the brakes and controls to prevent runaway inflation are in the hands of our government. Powerful forces now working against inflation, based as it is on the laws of supply and demand, include: (a) Taxes. Unless we are willing to live on capital, all of us will have to lower our standards of living for the duration. (b) Since the deficit of the government is inflationary when the government borrows money from the banks, and non-inflationary when the money instead is borrowed from the people, the more the people buy defense bonds the less the danger of inflation. If defense bonds and stamps do not promptly and voluntarily sell in increased volume, a plan of forced savings to siphon off part of the increased national income seems inevitable. (c) The real danger of inflation will continue to come from "pressure groups" — notably the farm bloc, whose efforts tend to raise living costs, play into labor demands for high wages, and thus set off the vicious circle that produces disastrous inflation.

5. The dislocations in our population, markets and consumer goods will be great. Some sections of the country will benefit immensely — will become active centers of consumer spending power; other regions will be badly hit and will dry up as active markets. Some of these population and market shifts are bound to be permanent. Also, some of the substitute products developed will retain a permanent place on the marketing shelves of the country, with definite adverse effects on currently established brands.

6. The first half of 1942 will see serious unemployment in the midst of serious labor shortages. Employment in the latter half of 1942 will be higher than ever before — some authorities declare there will be a job for everyone capable of working. More women will be working, especially with their hands.

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7. Old-time methods of territory analysis for sales representatives of the national manufacturer will not suffice in the present emergency. Flexible methods must prevail if sales managers are not to overlook opportunities developed by changes in income levels, population shifts, the lessening use of automobiles, the increase in mass-selling markets, and other similar factors.

8. Many salesmen whose peacetime activities are curtailed by the war effort will be employed in selling blackout materials and in the leisure-time markets such as travel, home hobby material and games, and also in the sale of substitute products. Industries engaged in repairing, rebuilding and servicing present a distinct new selling opportunity.

9. Certain non-war businesses in 1942 will be favored. The movies, makers of bicycles and of porcelain enamelware, and distillers are good examples of many more that could be named. The farm market will be more active in 1942-'43 than for years—farm income will undoubtedly reach an all-time high.

10. The government already owns or has contracted to build plants costing over eight billion dollars, representing approximately 40 per cent of the 21½ billion dollar valuation placed on all plants owned by private industry in 1939.

11. Many other developments showing the handwriting on the wall could be summarized. Perhaps this miscellaneous series of headlines appearing in the issues of *The Wall Street Journal* from December 26 to March 5 will recall some of the more obvious and bring their implications to mind: "Silk Stockings Will Be Gone by Easter, Substitutes Plentiful . . . Industry to Help Offset Lower Far East Imports of Starch and Sugar . . . U. S. Soldier World's Best-Dressed Man, So Textiles Are Scarce . . . The Tin Can—Adjustments to War May Bring Permanent Changes in the Container Industry . . . U. S. Must Change Some Eating Habits, Though Basic Foods Are Plentiful . . . Oil for Soap — South American Nuts, Once Ignored, Now May Become Major Source . . . Clothes — They're Going to Cost More by Spring . . . Production of Radios for Civilian Use Will Cease Soon . . . Book Publicity — War Changes Reading Habits, Booms Instructive Books . . . Transportation—Super Job Faces Trolleys, Busses, as More Auto Users Become Strap Hangers . . . Ice Cream—Its Outlook Bright Since Wartime Curbs Won't Affect It . . . Farm Equipment—U. S. 'Repair Now' Drive Swamps Industry with Orders for Farm Machinery Parts . . . Sugar Trouble — Candy, Cake to Be Harder to Get . . . Railroads — Heavy Summer Traffic, New Peak in Freight to Test All Facilities . . . Auto Dealers — They Open Skate Rinks, Bowling Alleys, Stores, but Cling to Franchises."

ADVERTISING SWINGS INTO ACTION

Against such a whirling, rapidly changing kaleidoscope developing new conditions daily — sometimes hourly — what of advertising and its future? Good, realistic advertising can and will help win this war. Quickly, with the versatility and power which has always characterized good advertising, this great force has swung into action.

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Today advertising, like every other element in industry, faces new tasks, new obligations, new opportunities. At a time when the margins of price differentials have been reduced, when style is no longer a major consideration and packaging no longer a striking inducement, when in many cases a sellers' market exists for consumer goods, advertising taxes both the ingenuity and the faith of the advertiser as never before.

Advertising today is performing many new jobs. A few include:

1. *Explaining your job.* Fisher Body is advertising: "Soon it will be bombers by Fisher."

2. *Building prestige.* Packard Motors advertises: "Packard powers the water wasps."

3. *Keeping good will of customers.* International Nickel's president sends a letter to distributors explaining why they can't get materials as in normal times.

4. *Creating new friends.* "My business is not as usual," states Bell Telephone Company.

5. *Showing uses.* Example: What Bendix builds for aviation—phantom design of a four-motored airplane and location of Bendix parts in it.

6. *Dramatizing uses.* "It Shod the Iron Cavalry." How Bibb H-R Fibre Cord is used for tire equipment in Arctic regions.

7. *Helping dealers.* General Motors and General Tire advertise new services offered by dealers.

8. *Uncovering new markets.* Example: Monsanto Chemical Company plastics replacing metals.

9. *Protecting your position.* Example: Rolls-Royce of England. Advertisement in British magazines reads:

> "The Best Car in the World. Although the manufacture of Rolls-Royce chassis has ceased whilst hostilities continue, the Company are pursuing without cessation the important work of research, experiment and development in connection with the chassis."

"PUBLIC POLICY ERA" OF ADVERTISING

It is important to recognize the new spirit and philosophy which influences much of today's advertising. "The new public policy era of advertising" was the apt description of this point of view in a recently published promotion piece of *The National Geographic Magazine.* This message to advertisers contained these significant observations:

> It is an important challenge to American advertising today that it be in tune with the temper and tempo of *these new times.*
>
> The new times call for new plans and practices in advertising.
>
> No longer is the particular emphasis on *the next sale;* for often there will not be enough goods to fill orders.
>
> The problem today is: How to hold the satisfaction and loyalty of the present users of your goods?
>
> How to retain the loyalty and friendship of your managers and workers? How to

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entrench the standing of your company with your stockholders and your banks? How to inspire and retain the respect and regard of the officials of government who play an increasing part in the conduct of your business?

How to get the longest possible active readership for each advertisement?

The need of attaining these new objectives makes new demands on your advertising. There must be found extra added values in every advertising dollar.

Today the emphasis on action—*the next sale*—is eased. But the factors of attention, interest, persuasion and confidence rise to a new premium.

How will you achieve these extra values in your advertising program?

An amplification of this point of view appeared in an article of mine in *Barron's:*

Business in the United States has, broadly speaking, heretofore utilized the powerful modern sales tools at its command primarily to sell products or services. Magazines, newspapers, business, farm and trade papers, direct mail, radio, outdoor, business films, publicity and all the others have been marshaled for this purpose.

From now on advertising, utilizing all these modern methods, will undoubtedly make increasing use of these same sales tools to sell ideas—to explain—to rehabilitate the business system in the eyes of the public—to tell the story of the part played by business in the war effort—to tell the story of research developments which will make better products available for more people at less cost in the after-the-war period.

Business must realize that it is not going to make its future stakes secure merely by a triumphant all-out effort in this war. Certainly it should vindicate itself thus by demonstrating its utility as the basic potent factor in the democratic setup we call the American way of life. Something more is needed.

American business should now be exerting the complementary effort to dramatize the importance and significance of its performance under fire, to drive home the ideological and political aspects of the American system that make such economic performance possible. Advertising faces a real challenge and golden opportunity.

As the interpreter, the explainer, the conserver of good will, advertising can and must now assume a statesmanlike stature, fully cognizant of its potentialities for the common good of all the people. There is need for a clear, candid, straightforward quality in all advertising produced today as we seek to build richer, warmer, more enduring relationships with all the people with whom we do business; with our managers and our workers, our sources of supply, with our facilities for transportation, with our stockholders and our banks, with our government, our customers, and the public generally.

Good advertising and selling will help win the war. Unquestionably, good advertising and selling are parts — vital parts — of the American way of life we are fighting to preserve. Good advertising and selling during the war will play an important part, as they have in Great Britain, in building and maintaining the civilian morale so essential to final victory. Good advertising and selling will help maintain business at the highest possible levels consistent with an all-out war effort. Good advertising and selling will maintain present markets and help build new markets for established and new products now — thus creating a reservoir of consumer demand to be supplied when the war is won.

Direct mail advertising, in my judgment, is particularly well suited for these times. Its flexibility, versatility, and speed of preparation make it an ideal medium for management's use under rapidly shifting market conditions.

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Its selectivity, a highly important factor, also makes it an outstanding medium when population and income shifts take place as rapidly as they do under today's conditions. It can and will economically carry the stories of new products, new policies, explanations of uses of substitute materials, and a multitude of other important messages direct to the key people who should receive such information accurately and in detail. The amount spent, the selling appeal, the physical format can all be altered to meet new conditions as rapidly as the user wishes.

The supplier of direct mail advertising or the services incidental to its use today faces both a responsibility and an opportunity: a responsibility to see that direct mail advertising is used efficiently; an opportunity to sell many new users on the medium—manufacturers, both old and new, who do not fully understand the peculiar potentialities of this medium which is and can be custom-built to fit today's selling needs.

WARTIME FUNCTIONS OF DIRECT MAIL

Some of the ways direct mail advertising is proving of service to American business during the war—"case stories" based upon the actual experiences of business firms—may be summarized in question and answer form:*

1. Are unjustified scare statements about impending—and often fictitious or exaggerated—shortages prevalent about your business? Such statements simply make the situation worse and stampede people into unnecessary buying. A perfect case in point is that of the S. D. Warren Company, paper manufacturers, who recently sent out to customers and prospects a timely, factual piece, giving the exact details on the rumored paper "shortages"—explaining the situation and showing that it's not nearly so bad, especially with fine book and advertising papers, as some supposedly responsible sources have claimed.

2. Are you keeping in touch with your employees? It's mighty important to maintain morale during the days ahead—to inform employees of changes in company policy and the reasons for them, to tell them of special situations which must be met, and to ask for special cooperation required from them under present conditions. Personal letters from company officials—house organs—booklets or folders, often in humorous style—are doing a good job along these lines right now. An example from our own experience is the poster (prepared literally overnight) dated December 10, 1941, which has been placed on all Flintkote plant bulletin boards to emphasize the importance of the factory and white-collar worker in the all-out war effort.

3. Have old problems suddenly become newly important because of increased business and activity? Many seemingly minor situations can be magnified by the stepped-up tempo of today. American Airlines, for example, al-

* For certain of these case histories the author is indebted to Mr. Leonard J. Raymond, President, Dickie-Raymond, Inc., who has generously given permission to draw upon his broad experience in this field.

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ways did have "No Shows"—people who reserved seats on Flagships but failed to phone in their cancellations. In the old days, when many planes took off with empty seats, "No Shows" weren't too serious. But today seats left vacant by "No Shows" could go to men who need them urgently—to Army or Navy officers, government officials, experts and technicians engaged in war production. So a specialized campaign of personal letters was sent to a key list of 200,000 business executives. As a result (and although no reply was solicited) hundreds of letters promising cooperation were received.

4. Are you faced with abnormal demands for certain services? Items? Sizes? Colors? The New York Telephone Company has an attractive folder accompanying its current bills which requests customers to eliminate needless telephone calls and instructs users on more efficient telephone use.

5. Are you maintaining close, cordial contacts with your key distributors? One large company is doing so by sending letters, over its sales manager's signature, to key distributors. These letters analyze Washington developments and their effects upon the industry.

6. Do you have new products that require promotion among highly selective groups of prospects? The Flintkote folder on Blackout and Camouflage Products, mailed to Civilian Defense officials with appropriate covering letters, assures quick, economical coverage of key prospects.

7. Are you telling people how to get better results from both old and new products? The tire companies are doing so: witness the U. S. Rubber Company's tire mileage chart now available free to motorists at their dealers; the "Grinding Bulletins" distributed by The Carborundum Company, General Motors' "Automobile User's Guide with Wartime Suggestions."

8. Is it possible to increase your business and to display patriotism at the same time? An example of this situation is the case of a large New England laundry which also runs a dry-cleaning service. Many laundry customers are not dry-cleaning customers, and vice versa. Naturally, it would be in the interests of economy to have each group use the other service and thus effect great savings in gasoline, manpower, rubber, wear-and-tear on replacement parts, etc. A campaign to this end is now in process of development.

9. Is the home office filling in between salesmen's less frequent calls? Direct advertising can effectively fill in between salesmen's calls—cover accounts that may be neglected—search out causes of dissatisfaction—and in general "pinch hit" for personal selling effort. Many farsighted concerns are using direct advertising for these jobs today.

10. Are market dislocations and income shifts creating new markets that demand immediate attention? Around many Army cantonments new towns mushroom literally overnight. To these new prospects direct advertising can carry the sales story about a myriad of products.

11. How about stockholders? They should be kept informed about their company's situation in a war-disrupted economy. Letters, monthly or semi-annual bulletins, and comprehensive annual reports will not only educate stock-

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holders but keep them informed on problems faced by management.

12. Are your replacement, repair and maintenance departments more important than before because new production has been limited? The typewriter field, in general, is a perfect example of this, and typewriter companies have sent special appeals to customers to take better care of their machines.

13. Can you build a permanent place for a so-called "substitute" product? Today's substitutes, in many cases, will become tomorrow's sales leaders. Test campaigns, utilizing direct advertising, may prove now that you have a winner which can be built into a leader in the future.

14. Are you checking your list-handling methods? Changes in mailing lists will be more rapid that ever. Even in 1941, before the United States' entry into the war, changes in lists were larger than in the previous year. In one industrial field there was a 27 per cent increase in changes. In one industrial list 7 per cent were in military service and 20 per cent moved to another field. Compile your lists carefully. Check them often. Weed out the deadwood. Remember that direct advertising can be the most costly of all types of promotion if mailing lists are not compiled originally with good business judgment and then maintained efficiently.

Did time permit, other instances might be cited of ways direct advertising is being used today. I trust those given may stimulate thinking and indicate how this versatile and flexible sales tool may be adapted to specific sales problems.

In conclusion, everything we accomplish depends upon our willingness, persistence, courage and wisdom in applying one and only one test to each decision: Will It Help to Win the War? Good selling, good advertising—including good direct mail—can provide a clear, emphatic "Yes" in answer to that vital question.

* * * * * *

Question: Specifically, Mr. Walter, how do you go about securing names of new residents in defense areas for your direct mail lists?

Mr. Walter: We have made use of this method: We have employed Boy Scout troops from nearby towns to make quick community canvasses. That is the only way we have found it possible to obtain accurate lists of the names and addresses of residents. In many cases we don't secure street addresses, because some of these people haven't street addresses as yet. In many cases the mail is sent marked "Boxholder," care of the post office.

Question: Subscribers to the Kiplinger Letter have been notified that the government will undoubtedly place restrictions on direct-mail advertising in the very near future. Will you comment on that?

Mr. Walter: I can only offer the impression I have formed from talking with individuals in the War Production Board in Washington. Frankly, I

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think Mr. Kiplinger is unduly pessimistic on that particular point. I do not believe that the restrictions implied in his remarks will be either as rigid, nor will they come into being as rapidly, as you would gather from his comments. I think every effort will be made in Washington through the Paper and Pulp Section of the War Production Board to encourage the legitimate use of direct advertising. I believe you will find more emphasis properly placed upon the standardization of forms and printed pieces, especially as to sizes, thereby eliminating waste. It will undoubtedly become increasingly difficult to use as much color in your direct advertising as you have in the past, because of shortages of ink. I think paper stocks generally will become poorer in quality since there will be less basic chemicals available for paper-making purposes. You won't have the fine white coated stocks that have been available in the past. Generally speaking, I believe you can plan with reasonable assurance on maintaining direct advertising operations on a reasonable scale, certainly through this coming year.

Question: Have there been any novel changes in the technique of designing direct mail as the result of changes in the quality of the paper or the inks?

Mr. Walter: I do not think so. I have not been conscious of any particular trend as yet. I think the trend, however, will be toward less lavish use of color and of complicated pieces. Psychologically, I think, people are down to bedrock these days. They want a more direct appeal and approach. The fancy, the tricky and the elaborate types of promotion do not, in my opinion, fit logically against today's realistic background.

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ADJUSTING PRODUCTS AND PRICE LINES TO MATERIAL SHORTAGES

By WALTER H. GEBHART
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Henry Disston & Sons, Inc.
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THE problem of adjusting products and price lines to material shortages is largely one of standardization and simplification. The question immediately arises: "How can this best be accomplished?"

There have been simplification programs in the past, adopted on an industry-wide basis in most cases; but frequently the reductions in distribution costs and the lower retail prices made possible by those reductions have been achieved at the expense of the quality or "work value" of the product — although appearance has usually been preserved. Naturally, these programs fell of their own weight, and their proponents were forced to return to sound economic principles.

There are, however, many ways in which products can be changed and simplified without impairing their functional excellence. And an excellent measuring stick with which to gauge the value of any change is the question, "Will it help win the war?"

GROUP ACTION VS. INDIVIDUAL ACTION

There is so much to be done that it is difficult to see how the job can be accomplished in time if Washington supervision is essential. And it is just as difficult to believe that individual action would be taken if it resulted in competitive advantage. Therefore the entire industry should be given the task of adjusting products and prices to conform with price regulation orders from the Office of Price Administration, and it might be a good idea to form industry-wide committees to function under the supervision of a deputy from the War Production Board.

One of the great benefits of the competitive system and the profit economy has been the great technological developments which have made it possible for industry to deliver better products at lower cost — with resulting improvements in our standard of living. There have been refinements of product, expansion of lines, and excursions into specialization. Most of these changes enhanced the work value of the products and were well worth while in peacetime. Now, however, it is time to standardize and simplify for volume production.

Where there is duplication of product and overlapping in use, a functional analysis is indicated. For example: Hand hacksaw blades containing 18 per cent tungsten and known as high-speed steel hand hacksaw blades have been widely used; they are an efficient product because the tungsten makes them resistant to

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heat. But tungsten is now scarce, and there are also hacksaw blades of the same design — same length, same number of teeth per inch, capable of cutting the same material — made of molybdenum steel. And, as the amount of heat generated when the sawing is done by hand is limited anyway, the second type of blade functions practically as well as the first. Thus it would be entirely possible to eliminate the tungsten hand blades and release tungsten for other uses.

Recommendations for changes of that sort could be made to the WPB by individual manufacturers. Then all the suggestions could be coordinated and issued in the form of a WPB order. For instance, there might be a ruling that the only hand hacksaw blades which could be manufactured would be those of molybdenum steel.

SETTING THE PRICE LEVEL

The same test must be applied to prices. The best price level is the one which will help win the war. This means there must be sound, honest, efficient operation in financial matters as well as in production. An industrial institution cannot endure very long and it cannot help win the war if its assets are dissipated by sales below cost. No doubt a general price level will be set, but the manufacturer will have to deliver values which will fit into that price structure, and these values must be adjusted on the basis of cost.

What effect will all this have on selective selling? And what are the factors which must be considered in planning selective selling? And how will the whole problem affect sales organizations, production and costs?

Again the yardstick "Will it help win the war?" must be used. According to a statement by Leon Henderson on February 21, the national income for 1942 will be in the neighborhood of 105 billion dollars. But there will be only 45 billion dollars' worth of consumer goods. Those figures indicate the sort of selling job that will be needed, and the kind of product and price problems which will arise.

Selective selling, in connection with both accounts and products, should be based on potential and profit. The seller must have information about his markets, and he must have factual cost data on which to base his values. And the fate of the sales organization will depend on how thoroughly management does its job.

We shall witness the disruption of many sales organizations — some of which could have been preserved — exactly as we did in the last war. At that time many industrial organizations were destroyed by the termite of poor judgment, as evidenced in the discontinuance of advertising and direct sales effort. The 17 celebrated examples which have been publicized so extensively as casualties of the last war met disaster because they stopped trying to sell.

A selling job should be done on profitable products, and in addition, an effort should be made to publicize the company's efforts to help win the war. The Disston Conservation Control Plan, for instance, is such an effort. Under this plan we are educating users in the selection of simplified standardized tools and in the proper care of those tools.

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A great deal of importance should be attached to the appearance of the product. But appearance may be misleading and intended to serve as a screen for a valueless product, or it may add unnecessary costs. In such cases it is of no value to the war effort. On the other hand, appearance may have a real "work value," and in that case efforts should be made to preserve it.

Another question which arises is: Should the appearance of a product be improved to offset the fact that substitute materials have been used? If the improvement does not raise costs and if it serves a useful purpose, the answer is naturally in the affirmative. But where the improvement is made for psychological effect alone, there is only one consideration: Does the company need to make the improvement in order to retain its reputation for product finish?

Then, again, should substitutions be noted on labels? In order to understand some of the factors involved here, let us consider an example: A manufacturer of asbestos and magnesia products used rubber as a gasketing material on asbestos cement pipe, which represented 15 to 20 per cent of his monthly sales volume. When rubber became unobtainable, the sales engineering and research department developed a substitute so satisfactory that the substitution made no difference. We should not assume that all substitutions mean an inferior product.

In adjusting our own product situation in lines where products were made in three different price classifications, we have not assumed that it is necessary to elevate the middle-price quality to the top price level because the alloys used in the top-price products are hard to obtain. Instead, our metallurgical laboratory is producing new combinations of materials which will provide "work values" equal to those which the highest grades now offer. However, it is obvious that in cases where substitution impairs the value, honesty requires that the customer be told of it.

Then, should such substitutes be featured in advertising? Or should the salesmen be told what to say about them? As long as equal value is delivered, it is pointless to call the customers' attention to substitutions; but if there is an increase or a decrease in work value, the substitution should be advertised and the salesmen should be told what to say about it.

Is it good policy to make substitutions before scarcity of materials compels you to? We placed the problem of discovering substitutions before our laboratory and engineering departments long ago; and whenever the possibility of a substitution which would "help win the war" is discovered, the substitution has been made if, on the basis of cost and selling price, it offered equal value to the consumer.

Naturally, every substitution is apt to give rise to a problem for the sales department. However, if the work of all departments is coordinated properly, the adjustment period will not be too critical. After all, every management question whether it concerns production, selling, or finance must be considered in relation to all departments.

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Finally, in studying the problem of substitution and simplification, we cannot avoid considering the question from the ethical viewpoint. Should one subordinate personal considerations to national requirements?

The fact is that, unless we win this war, there will be little need for considering personal security or gain. Thus we come back again to our measuring stick, "Will it help win the war?"

ADJUSTING THE CONSUMER MARKET TO MATERIAL SHORTAGES

By GORDON LAMONT
Secretary
Lamont, Corliss & Company
New York, N. Y.

IN these strange times, when brilliant sales managers become the peacemakers and buyers make up the Procurement Division of business, the question of the effect of material shortages on consumer goods becomes extremely important. How the world has changed, when the high-powered buyer who once tossed one salesman into one corner, the other into another, and then played them off against each other, is now taking them to lunch, to the theater, and entertaining them royally!

There are many obvious things to be considered with respect to the various material shortages. The only shortage with which I am reasonably familiar is that of sugar, the allotment of which must now be readjusted by many manufacturers.

The sugar situation is perhaps more important and more all-embracing than we realize. Hardly a product comes into the home in the form of consumer package which does not contain sugar in some form. Every manufacturer engaged in the processing of food products uses sugar. In the confectionery business, of course, it is a tremendous factor.

The problem of the beverage manufacturer, for instance, making one line of beverages is fairly obvious. Take the Coca-Cola Company as an example. This firm has only one line; it is known all over the country and has been well and heavily merchandised over a period of years. What has happened to this company? Its supplies have been so curtailed that production must be worked out on the basis of 80 per cent of last year's business. Yet there are no substitutes to turn to, no products that can be eliminated. This com-

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pany sells only Coca-Cola; it is now forced to eliminate 20 per cent of its business, which is a difficult adjustment to make.

Another firm, Canada Dry, makes a varied line of beverages—ginger ale and Spur as well as a number of other flavors. The problem facing this company is not so acute. Sugar can be diverted from the less popular products into those for which there is an active demand.

Any firm using sugar—sugar is used again as an illustration because I am familiar with it, but the same circumstances apply in general to tin or any critical material—must readjust its plans to the rapidly changing conditions, at all times taking into consideration that the fullest possible cooperation with the government is fundamental.

It has been said that the test of the value of such readjustment is whether it will help win the war. Although this is a good test, it cannot always be applied to the consumer industry, because the first duty of this group is to serve the civilian population. Today, of course, great care must be taken to make certain that, in this service to the public, shortages are not created for the government.

What advertising should be carried on, for instance, by a consumer firm which has spent millions of dollars over a period of years building up a brand name, and now finds that because of shortages it is not possible to deliver all the merchandise on order?

Most of us remember that there was a revolution in merchandising after the last war. New cigarette and food brands were introduced; undoubtedly part of that revolution was based on the failure of some firms to maintain their brands before the public. It is obvious that advertising on commonly used consumer brands must be maintained. But whether the manufacturers of such products continue to advertise as lavishly as they have in the past naturally depends upon two considerations: their profit ratio and the methods they intend to employ.

THE BUYERS' POINT OF VIEW

The morning mail these days does not contain cancellations but, rather, complaints that goods are not being shipped fast enough. This situation leads very easily to the error of overlooking the buyers' problems, and taking too independent an attitude toward them. Sales managers should check themselves frequently with the query, "Am I showing sufficient concern for my customers' needs?"

The buyer's attitude toward his supplier is based on these questions: "Is this firm giving me a fair share of its production, at fair prices under the present conditions? Are its services fairly administered, and is it doing the best it can to maintain itself as a source of supply to me?"

We must remember that the buyer and seller relationship has entirely

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changed in the past few years, and as members of a marketing group we must make certain that in the difficult period ahead we do not damage the good will which we have been struggling for years to build and maintain.

* * * * * *

Question: Although I know that the answer to this question must be given more or less in terms of the merchandise or the merchandising situation involved, one of the speakers has said that there are three possible courses of action to be considered. One was the development of new markets; another, concentration on old accounts; and the third, a program of "all out" for the war. What weight do you give to these three possibilities which are before most sales managers today?

Mr. Lamont: With the limited production possible today it is difficult to remain secure in our established markets, let alone become even more firmly entrenched. It is also almost impossible to decide whether to abandon sales efforts in our more remote and undeveloped markets.

Although all our decisions are subject to change without notice, one definite policy that our firm has established is that among our distributors, that is, wholesalers, large chain grocery or drug stores, we will open no new accounts, excepting where the necessity arises for servicing a wholesaler in an area in which there is an encampment or large defense works.

For the rest, we have had to tell every buyer that we cannot give him all he wants, and we have tried to spread our available supplies as far as we can.

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PRODUCT SIMPLIFICATION AND STANDARDIZATION

By EARLE M. EDGERTON
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Pacific Mills
New York, N. Y.

THE advantages of product simplification and standardization are obvious, and are by no means new. However, each industry must apply the principles of such a plan to its own particular problems.

In order to give a concrete example of the way one industry has worked out the problem, here is the experience of my own company, the Pacific Mills. Perhaps you may find some of the principles worked out here applicable to your own industry.

The over-expansion of productive equipment for weaving and finishing textiles during the early 1920's resulted in a partial breakdown of the general profit structure of the industry in 1927, two years previous to the general market collapse of 1929. It has been estimated that the textile industry could produce, on three-shift operation, from two to three times the amount of yardage which can normally be consumed. To satisfy the demands of the buyers' market which has resulted from this over-production, a highly diversified series of special styles and lines has been produced. Frequently, large buyers have been encouraged to select the patterns and color combinations which they desired, name their own delivery dates, state the amount of stock to be kept in inventory for them to draw against, even quote their own prices. During the depression in the '30's the textile industry passed through a period of the "survival of the fittest," complicated to some extent by the entry of new capital into the industry during the short periods of improved conditions which occasionally occurred.

In order to give a more lucid picture of the problems involved, let me sketch briefly the general structure of the textile industry. There are five fields of operation between the raw material and the finished garment in dyed or printed textiles:

1. Grey cloth manufacture
2. Printing or dyeing and finishing
3. Converting (styling and selling the finished fabric)
4. Garment manufacture
5. Retail store

In the first three fields there are two general types of operation. One is the job finisher-converter operation carried out by separate companies, wherein the converter purchases the grey cloth from the manufacturer, selects and styles

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the lines, contracts for the printing or dyeing and finishing with the job finisher, and sells the finished material to the garment manufacturer or retailer. The other is the so-called "vertical" operation, where any two or all three of these operations are carried out by one company. In this operation, product simplification and standardization would be most beneficial to the finisher, who contracts with the converter to process certain lines of patterns for a specified cost on the basis of a minimum yardage. The converter naturally tries to produce as wide a diversity of styles as possible with the minimum yardage allowed, and the amount of grey cloth at his disposal. He also attempts to obtain as many different color combinations on each pattern as he feels may be necessary to serve the various trades with which he deals. The vertical operator, who would benefit by product simplification, is in direct competition with the job finisher-converter type of operation, and in a sellers' market must of necessity vie with this competition in the variety of lines and styles offered.

FIVEFOLD PROFIT

The presence of these five factors in the processing of textiles produces a complicated price structure because of the necessity for five profits. In a buyers' market the "squeeze" works backward from the retail stores through the garment manufacturer to the converter, who in turn applies his "squeeze" to the job finisher and the grey cloth manufacturer. Retail stores have fixed price brackets for retail selling which includes a fixed mark-on and a fixed profit. Garment manufacturers have fixed price brackets for the retail stores which allow the stores their proper mark-ons and fixed profits. The garment manufacturer, in turn, is also assured of a fixed profit because his operation is straight-line manufacturing, and he can very accurately figure a fixed allowable cost for labor, materials, overhead, and profit. Since the garment manufacturer can pay only a fixed price per yard for the materials in his garments, as the price of these materials fluctuates, he purchases only that type of material which will fall within the allowable material cost. Thus in a buyers' market the pressure is transferred to the converter who is forced to supply materials to the manufacturer at a stated price, and who in turn assures himself a fixed profit by transferring the pressure to the job finisher and the grey cloth manufacturer, by establishing the prices for grey cloth or for finishing operations which must be met before he can buy their products or contract for their services.

The vertical operator who combines the functions of grey cloth manufacturer, job finisher and converter in one organization is, of course, in an unenviable position. He cannot apply the "squeeze" beyond his converting functions without "squeezing" himself, yet he must compete with the converter in the maintenance of widely diversified lines, style values, deliveries, and most important of all, in selling price. Thus the problem of the vertical operator, in attempting to obtain a proper financial return from his operations in a

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buyers' market, cannot be solved by raising prices, and therefore its solution is entirely dependent upon his ability to reduce costs.

The printing or dyeing and finishing of textile fabrics is not a straight-line production problem. Costs in printed patterns are variable and fluctuate according to the type of pattern—white ground, blotch or discharge printing on dyed grounds, the number of rollers, percentage of color coverage, color fastness specifications, weight or strength of color, type of finish, size of runs, type of put-up and other variables. There are at least 19 different combinations of color fastness set forth by the National Bureau of Standards in Washington, D. C. There are at least 10 different basic types of finish, with innumerable variations of each type. There are 41 different folds and put-ups recognized and tabulated for domestic and export use.

The various classes of trade serviced and their distribution requirements also have a direct bearing on cost, in addition to the style factors involved for the trade usage intended. The amount of finished goods which must be carried in stock and the resulting inventory and capital tie-up involved, special servicing for the retail trade, concessions to the jobbing trade and the difference in marketing value of the same or similar fabrics according to the trade usages for which they are sold, all have a very definite relation to selling prices, costs and profit structures.

TECHNICAL CONTROL DEPARTMENT

In order to study these complex problems and recommend ways and means of coping with them, Pacific Mills established a Technical Control Department, which had two main functions:

1. Control of the immediate styling and manufacturing processes and of the resultant product.
2. Control of future products by scientifically laying the groundwork for their processing, and by predetermining costs.

One department was selected for the purpose of experimentation. This department, which sold annually approximately 100 million yards of finished materials, was operating in one of the most highly competitive branches of the textile industry, and was putting into process about 600 new styles each year in addition to the regular styles. Inasmuch as each style was produced in four or more color combinations to a pattern, sales on 100 million yards of material were distributed over some 3,000 different color combinations and some 250 different plain shades. The colors which were used in these color combinations were selected from a standard book containing about 500 shades.

It is a well-known axiom in the textile finishing industry that 70 per cent or more of the total business is done on 30 per cent or less of the styles in the line. However, it is not possible to predetermine the salability of individual styles and designs except in a very general manner. Consumer style trends in color alone, without considering the pattern, are not predictable by any known means. It is highly essential in such an extremely competitive market, there-

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fore, that product simplification be effected without adversely affecting the salability of the merchandise.

Because the immediate simplification and standardization of the finished product was considered too large a step, it was thought best to start with the various factors making up the finished product. The first point studied was the standard book of 500 shades from which the colors were chosen. Each of these standard shades was identified by a formula, and many were so nearly alike that the variations in processing repeat lots of one shade would often be greater than the difference in shade between two different standards which might have been produced from entirely different dyestuffs. This, if course, required a very large dyestuff inventory, in order to make up so many individual colors, and, consequently, resulted in a great loss through wastage and deterioration.

A tabulation was made of the number of times each of the standards had been called for over a period of six months, and those most frequently ordered were selected as a basis for a new standard book. Each shade was given individual consideration in the attempt to produce the desired color from the most economical formula which assured color fastness. The new standard book consisted of 60 shades and reduced the number of dyestuffs required on inventory by over 50 per cent.

The Costing Department, one of the divisions of the Technical Control Department, established from plant records the total cost of each individual pattern, broken down into base cost, which is the fixed cost of all parts of the printing and finishing operation not subject to variables; the cost of printing, which is dependent entirely upon the productive speed of the individual pattern; and the color cost, determined by the coverage, type of dyestuff and weights of shade ordered on the particular pattern.

The costs of the individual patterns were then analyzed for the purpose of determining where they might be reduced by the substitution of less costly colors or by re-coloring the pattern in question. A maximum cost ceiling was then established for each line, and as orders using excessively costly patterns were completed, these styles were discontinued.

The Costing Department also predetermined the cost of new patterns chosen to replace those which were discontinued, and the cost of these patterns could not exceed the maximum allowable cost of the line. One of the reasons for the previous lack of control over the cost of new patterns was that since a pattern was printed in four combinations, an arithmetical average was taken of the color cost of these combinations. In actual practice, any one or two out of the four combinations might be more than twice as costly as the arithmetical average of the four, and if those particular combinations happened to be the most salable and were used in printing the greater part of the yardage, the actual cost of producing the pattern was greatly in excess of the anticipated average. For this reason, a maximum cost for each combination was established, so that regardless of what weighting of production was actually processed in the

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various combinations of a pattern, the total over-all cost would not be more than the allowable maximum.

Although this procedure introduced some restrictions, the stylist continued to select the patterns and color combinations desired, from the standpoint of salability, and it was the responsibility of the Technical Control Department to order the manufacturing processes and color standards so that the resultant product would approximate as closely as possible the desired result within the limits of the maximum allowable cost.

As old patterns were closed out, new patterns were added in smaller numbers than those closed out, so that at the end of one year's operation under this plan, the new patterns added to the line had been reduced from 600 to 400 and the average number of combinations per pattern had been reduced from 4½ combinations to 3½ combinations. As the number of patterns was being reduced, the minimum yardage which could be ordered against individual patterns was increased by approximately 35 per cent so that the same total yardage was produced and sold during that year on fewer patterns, resulting in increased yards per individual order and a decreased printing cost.

During the following years, additional merchandising departments were analyzed in a similar manner, and product simplification and standardization in the process of manufacturing was established wherever practical. During the course of these changes, it developed that certain proposed simplification methods which it was thought the trade would refuse to allow were being accepted without the realization that any change had taken place.

During 1940 and 1941 the effect of government activity in the textile field and generally improved business conditions resulted in an acceleration of product simplification. A survey of the progress made during these years shows that Department A, for example, offered for sale in the fall season of 1940, seven lines of plain shades totaling 154 colors, and in the fall season of 1941, four lines totaling 76 colors. The same department offered for the same period six lines of printed styles totaling 298 patterns in 1940, and three lines totaling 179 patterns in 1941. Other departments showed similar reductions in lines, colors and patterns. Since the fall lines are laid out and selected in the preceding spring, this product simplification actually took place before the defense program had any decided effect on civilian business.

MATERIAL SHORTAGE INFLUENCING PRODUCTION

By the middle of 1941 it became apparent that the defense program would cause definite shortages of materials and chemicals vital to the textile industry, and that priorities established on these materials would limit the amount of goods which could be processed for civilian use. The problem, therefore, involved not only a question of reducing the number of styles produced and simplifying the product, but a question of determining where shortages would occur, and, if necessary, abandoning whole fields which would be most seriously

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affected by shortages, or which might not be considered essential civilian production.

For example, lines which required the use of fast dyestuffs of the type used in dyeing army khaki and olive drab shades were obviously a poor risk, and lines which because of a mixed fiber content could only be dyed with colors which were "dry cleanable only" were viewed with suspicion because of the expected shortage of volatile solvents used in dry cleaning.

It was necessary first of all to determine how much of our equipment could be used for, or converted to, defense work; second, what types of cloth would be available for civilian markets after defense requirements were fulfilled; third, what production equipment we would have left over from defense work capable of processing these cloths; and, finally, how to concentrate our available material in a few simplified lines to insure the greatest production and economy of materials.

The entry of this country into the war did not impose a new set of conditions, but it did speed up the timing. The government's 1942-1943 program of war production means that there will be even fewer materials left for civilian production. The expansion of the armed forces, together with the necessary war production expansion, indicates a much earlier shortage of labor in the textile industry than was anticipated.

We had already put into effect what was considered a drastic program for the conservation of materials by product simplification, but we immediately reviewed the situation again. Although we had made changes in our sample-card operations and in our packaging in order to conserve our supply of paper, we made further changes to extend our supply even further and reduce the amount of labor involved.

On February 20, 1942, a communication was issued by Washington informing the finishing industry that it was recommended that designs on new patterns be made involving not over 50 per cent peg coverage when used on white grounds, that there should not be more than four color combinations per pattern, and that lines be cut to not over 50 per cent of the number of patterns carried in last season's line. This communication was signed by the Chief of the Textile Clothing and Leather Goods Branch of the War Production Board. The problem has now become acute; it is no longer in our own hands. Our task now is to determine how best we may improve our enforced product simplification and standardization without sacrificing quality, and without losing our markets.

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OPERATING UNDER WARTIME MARKETING RESTRICTIONS

Industry Concentration—Standardization and Simplification—Price Control—Rationing

BY

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CONCENTRATION OF PRODUCTION

By ARTHUR R. BURNS
Deputy Director for Programs
Office of Civilian Supply
War Production Board
Washington, D. C.

IF we are to devote our full strength to this war, we must concentrate production as Britain and Germany have been compelled to do. Officially we adopted a concentration policy on July 23, 1942, when Donald M. Nelson, Chairman of the War Production Board, announced a decision to that effect.

This announcement raised many questions. What is concentration? To what types of industry is it applicable? How are running firms selected? What will happen to the selling activities of closed firms? As we gain experience, the answers to some of these questions begin to emerge; others remain as open or half-open questions. I shall try to explain the answers that we have at the present time, although we must all accept them as tentative. As every industry has some problems of its own and most have their own customs, the same objectives must be sought by slightly different means in each situation. Future concentration policy is, therefore, best understood in the terms of its objectives.

Concentration of production merely means bringing together into fewer plants working fairly near to capacity all the production in an industry. It becomes necessary as soon as any great proportion of natural economic resources is applied to war. In the first stage of our defense program, war needs were met out of previously unused facilities and labor. In the next stage, the principal demands of the war machine were for steel, copper, aluminum and rubber and for the facilities for converting these materials into Army and Navy supplies. To insure that these materials and facilities would be withdrawn from civilian use without unnecessary disorder or unnecessary sacrifice of civilian supplies, curtailment orders were issued. And wherever production by smaller firms was reduced less than that by large firms, some concentration was in-

THE AUTHOR Dr. Arthur R. Burns, Deputy Director for Programs, Office of Civilian Supply, War Production Board, was a member of the mission which visited England in July, 1942, to study methods of industry concentration.

As director of research of the Twentieth Century Fund from 1939 to 1941, Dr. Burns was responsible for the survey of relations between the government and the electric light and power industry. In 1938 he was chairman of the Committee on Distribution of Consumers' Goods, Price Conference, National Bureau of Economic Research. Since 1928, he has been professor of economics, with special reference to industrial organization, at the Graduate School, Columbia University, from which he is on leave at present. He is author of *The Decline of Competition*, McGraw-Hill Book Company, New York, 1936.

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volved. The intention was to free for war production the larger firms which were capable of quick and effective conversion to war production, and to prevent smaller plant failures that would greatly reduce competition in postwar industries.

The demands of the armed services and of our allies are now so great that civilian supplies of metal products have been cut almost to the point where any further reduction would endanger the war program. In this area, our main problem is no longer to decide where we can order a cut with the greatest benefit to the war program, but rather how we can insure necessary civilian supplies. These supplies cannot be assured unless manufacturers are able to secure enough business to pay their expenses. Where necessary, some plants must be closed to enable others to stay in business and work at a profitable level. Here, then, is the first of the objectives that controls concentration.

SAVING OF MANPOWER

Serious mobilization for war compels concentration for another reason. War production was manned in its early stages, directly or indirectly, from the reservoir of unemployed. Later it was possible to use the workers released from civilian work as scarce materials were freed for war uses. In fact, until the spring of 1942 this country was able to step up not only its war production but most of its civilian production as well. Civilian production in general was even stepped up above current consumer purchases, and inventories were accumulated. Now, however, we face an increased need for men and women for the armed services and increased demands for workers for war production. Longer hours can be introduced without loss of efficiency in some cases, and there is room for improvement in the utilization of labor. In addition, more people must be brought into the labor market, and more can be brought in if we change our attitudes toward older workers, women, the colored and other groups of whose ability to produce we have never taken full advantage. But even with these changes we must get along with less labor in civilian production. When production is concentrated and some plants are closed, less labor is used to produce a given amount of goods or, to put it differently, we can get more goods from a given amount of labor. Here, then, is a second objective of concentration.

The third objective arises out of the nature of the labor supply. Steel is so adaptable to different uses and so easily shipped that we have a relatively free choice how and where to use it. But labor may be skilled, or in other ways more suited to some uses than others. In time of war, workers are willing to move to places where they are most needed. But they need houses, public utilities and governmental services. We cannot afford epidemics or lack of education. Neither can we afford the scarce materials necessary to house and serve large populations in new areas. We must take the jobs to the workers. The armed services have been directed to move jobs by placing new contracts and renewing old contracts in areas of labor surplus. But the armed services cannot relieve all local labor shortages in this way. Civilian production must

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also be moved as much as possible to places where it will least hinder war production. In other words, we can achieve our greatest effectiveness for war and best serve the civilian by cutting the pattern of civilian production to fit into the program of war production. Here is another of the objectives of concentration. It can be achieved if civilian production is concentrated in areas where war production makes smaller demands for labor than elsewhere.

TRANSPORTATION

Shortages of transportation (by water, truck and railroad) and of fuel and power are now with us, and they are growing. They resemble the labor shortage in that they appear as a series of local bottlenecks rather than a single national bottleneck. Production can be concentrated so as to relieve them. It may be necessary also to take steps to reduce uneconomical transportation by the zoning of market areas.

INDUSTRIES TO BE CONCENTRATED

The type of industry likely to be concentrated is, first, an industry producing civilian-type goods, even though much of the product may be bought for the armed services or for export. Second, such an industry *can* be concentrated only when the amount of the product required is considerably less than the available capacity of the industry. Third, it is *worth* concentration only if without concentration essential requirements are unlikely to be met, because production at permitted rates of operation is too unprofitable, or if concentration will release needed manpower or other resources to war activity. Thus concentration, although possible, will not be undertaken unless it is likely to aid war production or the provision of essential civilian supplies.

The selection of plants to produce civilian goods during the war presents two problems. First, total requirements for the product must be calculated. These total requirements indicate how much capacity must be kept running. Second, the individual plants which are to continue operating must be selected. The total requirements include not only civilian needs but also those of the armed forces and for export, and calculating them will be difficult. The course of the war is not under our sole control. In consequence, both military and export needs are subject to changes sometimes rapid and large. Housekeeping for the civilian economy is difficult, both because we have little experience in national housekeeping and because the real income of the civilian economy is fluctuating and moving downward. In consequence, until the future is more clearly visible, we must keep open sufficient total capacity to allow for later expansion if it becomes necessary. To save transportation, we may aim at greater regional self-sufficiency than in the past. But we may then find it necessary in some regions to keep open large plants which will not be fully occupied. For both these reasons, concentration cannot be carried so far that all the running plants are working at their full capacity to meet requirements as estimated at the time of concentration. Some cushion of unused capacity is necessary.

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In deciding which plants shall remain in production, we must be guided largely by where labor, transport and power are most needed in war production. The kind of labor that can be released is often not the kind that can be used in war production. But the workers released can often take jobs and so release others for war production. Sometimes a series of employment shifts is necessary before the supply of labor for war production is increased. But such shifts are essential to the best use of our labor, housing and public utilities. Some plants may employ a few workers who cannot or will not take other work. We may be compelled to lose this labor, recognizing the loss as the price we pay for greater effectiveness in war.

SELECTION OF RUNNING PLANTS

In practice, the choice of plants to continue in production is far from simple. Where an industry is localized, it may be difficult to choose the running plants. The amount of labor, transportation and electric power released may be very similar no matter which plants are closed. But the War Production Board is required by Congress under the Smaller War Plants Corporation Act to insure that small business concerns will be most effectively utilized in the production of both war and essential civilian goods. Consideration will always be given to the ability of the small plants to produce the type of article needed. Where larger plants are highly mechanized but unadaptable to war production, their closing may release less labor than the closing of small plants. If some plants are especially equipped to turn out a type of civilian product needed for the armed services, export or home use, they will be selected unless others can be adapted quickly and at little cost in scarce materials and labor.

But an area remains in which the selection of running plants cannot be guided by any rule. Where production is carried on in a number of localities, the selection of running plants may be more difficult. In general, transport and power are most likely to be short where labor is short. But we are sometimes faced with perplexing choices. Closing plants on the Pacific Coast to relieve serious labor shortages may call for long hauls to insure adequate service to the local population. We must then decide which bottleneck is the narrower.

DISTRIBUTION

Concentration of production also affects the system of distribution, but manufacturers whose plants are closed are not necessarily compelled to sever connections with their former customers and temporarily abandon their trademarks, although these sacrifices may be required. No definite decisions have been made on this matter because few concentration plans have been published and many of those under consideration do not present the problem sharply. Policy cannot be established until actual situations are presented.

Nevertheless, some very broad principles are available. Trade relationships will be upset only where necessary for the war program and where no other and better means of obtaining assistance is available. In some industries, if closed plants receive no goods, certain areas may temporarily be with-

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out supplies, although the War Production Board will endeavor to prevent any such unequal distribution of scarce products. Furthermore, some manufacturers' distribution organizations perform valuable repair and maintenance services, and the Board has no intention of destroying these organizations unless the demands of the war program necessitate it. Obviously, essential repair and maintenance services must be maintained.

Policy with regard to brand names is equally undeveloped. Bicycles are now produced in only two plants and carry no brand names, but stove manufacturers, having been limited in the materials they may use, are not prevented from placing their names on their product. The pressure of war is very likely to require the simplification of many products, and manufacturers may prefer not to have their names on them when they have been greatly simplified. In some industries it may prove difficult to maintain all brands and unfair to maintain some. In this matter, the desires expressed by business will be an important guide. But with regard to both supplies of goods to closed plants and brand names, the potential gain to the war program will carry more weight than any other consideration. Where there is no gain, no steps will be taken to change existing market organization. The War Production Board will intervene only where necessary to aid in war production and will rely, as far as possible, on existing business interests to adjust themselves to the changing situation. The war program can be aided, however, by the release of labor from distribution as well as from production. For this reason, it may be necessary to concentrate the distributive as well as the productive activities of manufacturers. But these activities must then be considered as part of the distributive system as a whole, which includes wholesalers and retailers.

The distributive system has already begun to feel the shortage of goods to distribute. It is also suffering from a shortage of labor. It is a very large employer and, therefore, a large factor in the adjustment of the civilian economy to war. To the extent that we directly or indirectly meet the needs of war by releasing workers from distribution, we relieve the pressure to reduce the production of consumers' goods which do not call for the scarcer materials. To some extent, we can choose between less convenience in distribution and a greater curtailment of the supply of consumers' goods. There are various possible adjustments. Older, inexperienced workers who are poorly adapted to direct war work must be used in distribution. Distribution services must be pruned, not only of their luxuries but also of some of what we have come to regard as the normal services of retailers. The number of retailers must also be reduced. Many branches of retailing, if they have not been overcrowded in the past, will become overcrowded in the future, with continued shrinkage in the quantity of goods for sale.

Distribution cannot be concentrated in quite the same way as production. Few distribution facilities are convertible to war uses, although some conversion is possible, particularly for storage. While we must arrange to carry on production where labor is most available, we cannot take the same attitude toward distribution. Distribution service is needed wherever there are people.

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In fact, the need for distribution increases in areas where population increases. These areas are those most busily engaged on war production, and are likely to be labor shortage areas. Furthermore, reduction of the number of retailers may, but does not necessarily, increase travel by consumers. Such increases are undesirable because they strain the transportation system. Rubber is so scarce that we cannot afford to use more for truck, passenger car and bus transportation. To do so would cause a greater shortage than the one it would relieve. If some stores in small communities carry a greater variety of goods, thus permitting other stores to go out of operation, labor can be released without depriving the community of the distribution service it must have.

RETAIL DISTRIBUTION

The concentration of retail distribution is an extremely complex problem. It cannot be designed on a national or even a regional basis because of the essentially local nature of the service. Each locality must have enough retailers to distribute its share of the available civilian goods. Moreover, retailing is not one but a great family of trades. While some retailers can take on new lines, some lines require specialized skills and equipment and are difficult to consolidate with others. Any concentration of distribution must take account of the minimum needs of each locality and in each line. In practice, both localities and lines are hard to define, and needs for distribution services are extremely difficult to measure. Governmental planning in this field is discouragingly difficult.

The difficulties of obtaining labor and goods to sell will inevitably cause mergers. There will doubtless be failures also, but failures have always been high in some branches of retailing. New stores are not likely to be born, however, at the same rate as in peacetime. Whether the combination of high marriage and death rates and low birth rates among stores will reduce distribution services to the number we can afford in wartime is a serious question. The reduction may be too slow and too wasteful of resources. It may also go so far as to reduce service below the essential minimum in some localities and some lines.

PROCEDURES FOR CONCENTRATION

A brief description of the procedures for concentration may throw light upon the implications of the program from another angle. A committee on concentration has been established in the War Production Board under the chairmanship of Joseph L. Weiner, Director of the Office of Civilian Supply. The members represent the Director General for Operations, the Labor Production Division, the Smaller War Plants Corporation, and the Office of Civilian Supply, all of the War Production Board or the War Manpower Commission. The Committee has called for a preliminary survey of all civilian industries to discover which are eligible for concentration. These preliminary reports have resulted in decisions to proceed no further at present in some industries. With regard to the remainder, more detailed studies are being made. These will

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either show that concentration is undesirable or indicate the method of concentration to be adopted.

Since its appointment, the Committee has been mainly engaged in determining the general policies of concentration and in arranging for the special studies of each industry apparently eligible for concentration. Before any plan of concentration is put into operation, it is discussed with the labor and management advisory committees for the industry, and their comments are likely to bring about various adjustments. The Committee itself has so far finally approved of only two concentration schemes—namely, in the farm implement industry and for the Puget Sound section of the pulp and paper industry. Prior to its appointment, curtailment orders had been issued which involved concentration in the typewriter, bicycle and stove industries.

There is an alternative approach to concentration, which has been much discussed. It has arisen primarily out of the desire to aid the war program most speedily where aid is most needed. Areas in which war production is restricted by the scarcity of labor or other immobile resources would be chosen for special study, with a view to prohibiting some civilian activities there. No action of this kind has been taken, however.

The closing down of selected civilian industries in an area presents two problems. If the areas are to obtain the products of these industries on the same basis as other areas, production must be increased in other places. Attempts to plan production in this way lead back to something like the industry approach heretofore followed by the Committee. Complete elimination of production in selected civilian industries in tight labor areas also increases transportation burdens. True, transportation needs can be reduced by compelling some areas to accept a smaller supply of certain civilian goods than other areas, but it is obviously difficult to place areas active in war production on a lower standard of living than the rest of the country, although conditions may compel differences in policy in different regions. Already the Atlantic Coast region has suffered a greater curtailment of gasoline supply than other regions.

THE BRITISH PATTERN

Concentration policy in this country is taking a shape somewhat different from that it assumed in Britain. First, the British have never announced a preference for small plants. They have usually left the very small plants out of concentration plans, allowing their fate to depend upon their ability to obtain materials, which varies somewhat among industries.

Second, British policy in its first phase (which commenced with the government announcement of its concentration policy in March, 1941) was notable for its reliance on the principle that each industry should make its own arrangements for concentration. The government set the total production figures for the industry and the amount of labor that must be released in each area. It invited small groups of firms to agree which of their plants were to be closed. Firms failing to negotiate such marriages were denied any assurance of materials or labor, or even of continued use of their buildings. This procedure

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is sometimes, though far from accurately, referred to as "voluntary" concentration. It was adopted mainly for two reasons. It was expected to achieve concentration more rapidly than a government plan for each industry; and it harmonized with the tradition of leaving the maximum scope for business initiative in adapting industry to changing conditions. Marriage agreements were submitted to the government; if they were found to close down sufficient capacity and release the required amount of labor and building space in the prescribed areas, they were accepted. The "nucleus" firms were supplied with certificates giving them fair assurance of materials and labor and fair protection against the requisitioning of their buildings. Some of the smaller industries were concentrated largely in this way. But in larger industries marriages were arranged but slowly. In industries with a very large number of firms, such as clothing, cotton textiles, woolen textiles, and furniture making, the government was compelled to nominate the running firms.

Third, the British have provided for the compensation of closed plants. No government compensation has been allowed, but nucleus firms have been required to make reasonable arrangements with closed plants. Where concentration is on an industry basis, industry-wide pools are usually established to collect funds for running plants and to compensate closed plants. The general test of fair compensation appears to be that it shall provide a simple and reasonable basis for sharing the economies of concentration.

Fourth, the British announced their policy of concentration when plans for some 30 industries were already well developed. For this reason, they achieved, in the course of a little over a year, the release of some 225,000 workers from industries employing about 700,000 prior to concentration. Some 50 million square feet of factory space have also been released, either for war production or for storage.

Finally, the British have recently established schemes to guarantee to small retailers a fair share of the available supplies of clothing, pottery and hollow ware. "Small retailers" are defined differently under each of these schemes, in terms of their money turnover in a base year. Each small retailer is entitled to a given percentage of his supply from each wholesaler in the base year, a percentage dependent upon the extent to which the supply of each product has been curtailed since the base year and upon population changes in each area since the base year. The British Government was impelled to institute these regulations partly because small stores were complaining of unfair treatment and partly to prevent increased traveling by civilians unable to obtain supplies in their neighborhood stores. In taking this action, the government protected small firms and retarded concentration in retailing.

DIFFERENT SITUATION HERE

Differences between our concentration policies and those of Great Britain are inevitable. On the one hand, we can benefit from the 20 months of British experience and avoid policies that have proved troublesome. On the other hand, conditions in the two countries differ, and the same policy is not always ap-

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plicable in both. "Voluntary" concentration, for example, has turned out to be a slow method, except in compact industries, largely because it requires business men to elect some of their colleagues to commit at least temporary suicide. This decision is not of the kind that industry should be asked to make.

The British have also run into both difficulties and criticism with regard to their decision on compensation. Even the care and maintenance of the closed plants can be provided by the running plants only so long as there are sufficient running plants to carry the burden. There are now one or two industries —carpet manufacturing, for instance—in which production is so severely limited that the few surviving plants cannot finance the care and maintenance of the remainder. It has also been pointed out that the financial losses of closed plants are merely one among a great variety of financial losses due to the war. These losses may be due to loss of opportunity to continue in a trade or profession, because individuals have been drafted into armed service. They may be due to property losses arising from enemy action at sea or on land. They may be due to the requisitioning of plants or the partial withdrawal of workers or materials. War scatters profits and losses throughout the population in a manner which depends on its peculiar needs. There is now considerable discussion of the propriety of the British policy of dealing separately with various types of loss and applying different criteria to them. In this country, Mr. Nelson, in a recent letter to the Senate Small Business Committee, stated his belief that the task of working out the financial problems arising out of war losses neither is nor should be the responsibility of the War Production Board. He advocated a War Liabilities Adjustment Act.

The differences between the two countries are sufficient to cause considerable differences in approach. Great Britain is so much smaller than the United States that its industries are more homogeneous and more manageable in size. Many of our industries are far more widely scattered, with sharper regional differences, and frequently regional conflicts exist. The greater size of this country makes our transportation problem, although at present less acute, more complex and more difficult to handle. The extent of concentration necessary and the types of industry in which it will be required are also somewhat different. Labor shortages in England are far more acute than any shortage yet in view here, while material shortages there present a different problem because the British rely more on imports.

Many British industries have more compact industry organizations than are generally available here. Finally and above all, the British have no anti-trust tradition. It is doubtless partly for this reason that they have been less concerned than we have with the maintenance of small firms (except in retailing). Our preference is partly based upon the desire for a sound economy after the war, but it is also due to the need to free for conversion to war work the larger plants, which are capable of quicker and more efficient conversion. Having converted to war production all firms in any way convertible long before they started concentration, the British were less concerned with special protection for small plants. This preference for small firms also creates a difficult prob-

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lem of compensation, since it means that the small plants might be required to contribute financial aid to the larger. The absence of an anti-trust tradition in England also in part explains British willingness to accept privately designed and managed compensation schemes in concentrated industries.

NECESSITY FOR THE PROGRAM

No one who realizes the implications of the concentration program can face it with pleasure. It cuts painfully into the traditional freedom of business opportunity which we value. It requires the government to make difficult and distasteful choices between business enterprises—choices which threaten the continued existence of many companies. But the grim fact is that the peril to business enterprise comes not from concentration but from the brutal philosophies of life against which we must fight, and fight more effectively than we have yet done. These philosophies threaten us with a concentration of power and of opportunity for free enterprise, thought and belief, more far-reaching and lasting than the proposed concentration of production. There is no escape from the fact that the freedoms for which we fight can be won only if civilians stand solidly behind the armed forces. Tremendous resources must be used for war. Production of civilian goods must be correspondingly reduced. Without planned concentration, firms in civilian production will hang on, use up their resources and fail. Support of the armed forces will be niggardly, and will not appear where it is most needed. Concentration is necessary to assure the armed forces of effective support in the form of productive resources and men. It is necessary to assure civilians that their minimum needs will be met, and that they are making all the sacrifice required to speed the end of the present destruction of ideals, men and the means of decent living.

* * * * * *

Chairman A. T. Kearney (Regional Director, War Production Board, Chicago, and senior partner, McKinsey, Kearney & Company): Mr. Herbert Angster, secretary-director, National Association Domestic and Farm Pumping Equipment and Allied Products Manufacturers, will lead the discussion.

Mr. Angster: I might be called Exhibit No. 1, for I am one of those who have had a taste of this so-called concentration in the last 60 days. The industry which I represent is the farm pump and water supply industry, a major segment of the farm equipment industry. It operates under Order L-170, which embodies the concentration feature of which you have heard.

The preamble to that order reads, "The following order is deemed necessary and appropriate in the public interest and to promote the national defense." But experience has taught me that the concentration program, in general, does not aid the war effort and, so far as our industry is concerned, that it is not in the public interest.

I have often wondered what the real motive behind concentration was. From the report given by Mr. Burns, I gather that the program is designed to

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save transportation and to keep the manufacturers from losing money—although this is the first time in my 40 years of experience that I have ever known the government to lie awake nights worrying about industrialists losing money.

I have absolutely no quarrel with limitation orders. If 20 per cent of the raw material we used in 1940 or '41 is all that is left for us as an essential civilian industry, then we bow to the inevitable and gladly accept that 20 per cent. But we want it divided the American way—equally. And I shall prove that the manufacturer will not necessarily lose money on that 20 per cent.

According to Priority Regulation No. 1, we must take on lend-lease export business, and rated business as well. When we add lend-lease, rated business and repairs, plus a fixed 50 or 60 per cent direct conversion to war work, we have a beautiful production picture. A manufacturer can't live on repairs alone. But if he has a quota percentage of new materials to make, no matter how small it may be, he can maintain his productive efficiency by adding to it his repairs, his lend-lease and rated orders, and manage to maintain his distributor organization.

When I first examined this concentration program, I thought it was a production measure and that it embodied perils only for production. But I have learned since November 1, when the order became effective, that an additional peril confronts distribution and marketing—a point I shall elaborate on a little later.

First, I would raise the question, "What type of industry is adaptable to concentration?" Bicycles have been mentioned. But there were never more than 12 bicycle concerns in the country, and the job of compressing them into two should not have been difficult. My industry, however, embraces more than 1,600 concerns. How many types of bicycles are made? Not more than half a dozen. We make 3,000 items of farm equipment used in the production of food and fiber.

Similarly, there were relatively few stove manufacturers and relatively few different types of stoves, while the job of concentrating the five or six typewriter manufacturers was not a difficult one. But 1,600 or 1,700 manufacturing plants located all over the country are a different story.

Our industry may be divided into three groups: A, B, and C. In Class A are the concerns doing $10,000,000 worth of business a year; in Class B, those doing $750,000 to $10,000,000 worth; and in C, those doing under $750,000 worth. Now the entire production has been handed over to Class C, while manufacturers in Classes A and B have a large goose egg as their quota.

Our products are many and varied. Because of geographical conditions, different types of equipment must be used for different sections of the country. A good many of those types are not manufactured by the Class C firms, with the result that the American farmer is entirely deprived of some types of farm pump equipment.

In all fairness, I must say that the War Production Board now realizes the difficulty and is calling upon some A and B manufacturers to make certain items. But they cannot pull the raw material out of the clouds, and as they

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possess no raw material, they will not be able to supply the farmer with his equipment in time for the spring farm work.

Another point: The War Production Board has been urging substitutions and improvement of methods. But does a concern doing less than $750,000 worth of business a year have a research department or an engineering department? The Class A and Class B manufacturers have done a fine engineering job; they have streamlined and redesigned their lines at tremendous cost. But the American farmer cannot benefit from those improvements because the Class A and Class B firms have no quota at all.

Then in the matter of distribution: Naturally a concern doing under $750,000 worth of business a year has nothing more than a local distribution; it has, perhaps, 100 dealers all in its own locality. In most cases, the Class C manufacturer has sold to one of some larger manufacturer's dealers, who takes the Class C line as a price line.

But the dealer cannot exist on what he can get from the Class C manufacturer, and the result is that our dealers are dropping off like flies. And that would not matter so much were it not for the fact that it is the dealer who renders the repair service. Thirty or 40 years ago, every farm was equipped with a forge and anvil, and the farmer did his own repairing because the repair work was simple. But when it comes to repairing the modern tractor, the modern combine, or other modern farm equipment, the farmer is not able to do it; he depends on the service man, the dealer, to keep his machinery running.

The independent dealers are dropping off, and the result is that whatever business exists is going to the mail order house. Within the past two weeks I have surveyed at least 25 of these Class C manufacturers who heretofore have never sold a dollar's worth to mail order in their lives. They have been selling to a little group of dealers in their territory.

What has happened? They tell me pointblank: "Oh, it is much easier now. Instead of selling 100 customers, we sell one. We are going to sell our product to mail order."

If that trend were permitted to continue for six months, there would not be enough dealers left in this particular line to wad a gun. Whatever merchandise is left will go to the two major mail order houses. Is it possible for them to sell all the products of the Class C manufacturers? In 1941, perhaps the last year that even approximated normality, the manufacturers of this country produced about 340,000 units of electric farm water equipment; and, of that, the two major mail order houses sold 70,000 units. Today the Class C group produces about 30,000 units.

Is there any doubt that the two major companies could sell 30,000 units when they sold 70,000 in 1941? This trend means the death knell of the independent dealer.

In conclusion, I feel that the material available should be so distributed that our dealer connections can be maintained, and that our producers can manufacture their limited quotas of goods. If some manufacturer should say

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that he cannot operate at 20 per cent, that is all right. But I have not heard one say so. Recently a small group of our manufacturers met with one of the vice chairmen of the War Production Board. That gentleman asked each of those manufacturers if he could continue to manufacture on a 20 per cent basis. Every man answered that he would be willing to take 20 per cent, 10 per cent if necessary, to aid the war effort, provided he was allowed something to supplement repairs and the other rated orders.

Speaking of repairs and replacements, it must be borne in mind that the castings for repairs and new merchandise are molded in the same foundry at the same time, and machined in the same machine shop at the same time. The result is that one holds down the cost of the other. If material is divided equally, in what I call the American way, we could all continue to do business, even if on a curtailed basis.

Talk of saving transportation by concentration is merely funny. The major portion of the A and B companies have branch houses or distributors located in different parts of the country. The C manufacturer does not. In other words, the little C manufacturer in Indiana must now try to ship a farm pump to North Dakota. I should hate to be the farmer who has a herd of cattle waiting for a drink.

So there is no saving in transportation. Neither is there any saving in manpower—I find the workers whom we had to lay off on account of concentration are going home instead of into war industries. "We have enough to see us through the duration so we are not going to work," they say.

The American workman of 45, 50, or 55 is not going to be moved around like a pawn on a chessboard. Such men own their homes in smaller towns, and they are not going to leave them. In many civilian industries, particularly in the one I represent, a large percentage of the labor is past 45.

If there is no saving in manpower or transportation and the government is just trying to keep us from losing money, we are willing to take a chance. We prefer to do business in the American way.

Question: Are cross-hauling bans to be a feature of industry concentration?

Mr. Burns: Cross-hauling bans are not essential to concentration. Concentration plans are devised to save transportation, where the saving is necessary and possible, by selecting running plants in such a way that regions will be self-supporting. The bans on cross-hauling hitherto imposed, particularly in the oil and sugar industries, were adopted for special reasons. But it may be necessary in the future to regulate transportation to insure that the products are not uneconomically transported after production has been economically located. But no such action has yet been taken.

Question: Is Mr. Burns going to reply to Mr. Angster's presentation of—shall we say—a slightly divergent point of view?

Mr. Burns: I am glad you made that suggestion, because there are a number of points to which I should like to reply.

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Mr. Angster is, of course, much closer to the practical problems of the farm implement industry than I am. And I realize that, as he said, the industry which he represents is very large and very complicated—perhaps it would be more accurate to refer to it as a group of industries. Also, I think every one should realize that the plan for this industry was the first concentration program developed; it would not surprise me in the least, therefore, if there were a number of things wrong with it.

Nevertheless, some points should be brought out to clarify a few of the issues. In some industries—and this may be one—it is possible that manufacturers can get along with only a 20 per cent rate of production, provided they can fill out the rest of their capacity with replacement parts, and particularly if they can fill out with war business. But it is questionable whether that is the most effective way to use the facilities. In a number of industries we have found that we get more war production if the larger and more adaptable plants are converted completely while the small ones, which cannot be changed over so easily, remain in civilian production. Moreover, so far as I know, the larger manufacturers do not feel that they have been asked to make a sacrifice unreasonable in time of war. But there are many industries—in fact, I should say this applies to the majority—where, if each manufacturer had 20 per cent of his usual quota, many would not be able to operate at all. A good many industrialists have told us that we ought to know better than to suggest it.

It was largely for these reasons that we followed the general policy of first filling up the Class C group of farm implement manufacturers with business; then distributing what was left over to those in Class B; and then, if anything were left over, distributing it among Class A firms.

The order is very complex. It involves a long list of implements, and the various implements are curtailed by different percentages, according to our need for them. The production of each manufacturer depends on the kind of implements he makes and his size.

Mr. Angster explained that some of the manufacturers had difficulty in getting materials. That is true and regrettable. We have had only a brief experience with controlling the flow of materials in this country, and that flow is not yet under complete control. As soon as we were notified that some manufacturers could not get material, we went to the Requirements Committee in the War Production Board and asked that farm implement material be given an AA-1 priority—the highest there is, apart from emergency priorities. This request was granted. As the control of materials improves, there should be little cause for complaint on this score.

When I was discussing the position of distributors, I explained that, as a result of war, there are fewer things to distribute and that, therefore, we cannot support all the distributors previously needed. A distributor cannot be kept in business unless we can keep up the volume of goods he has to sell; and we are up against the grim fact that there is not enough of many materials for that. Well over 90 per cent of our steel must go to war production:

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that is the reason for the cut in farm implements. The sale of farm implements in general has been unusually high in the last five years. Whatever the reason for the decision to curtail farm implement output, once it is made it is impossible to help out the distributors by keeping up their old volume. The trouble arises not from concentration but from the war itself.

The industry being so large, I have no doubt that we have not saved as much transportation as we should. But the fact that large firms have distributing houses in various places and the small people do not is not, in itself, an indication that transportation is being wasted; implements must be transported to the various distributing points.

Mr. Angster also mentioned the possibility that workers pushed out of civilian production will not work at all. That, I suppose, is a matter of personal observation. I am inclined to doubt whether many workers who lose their jobs decide not to work at all, although in all probability there are some who will. We may have to lose that labor as the price of a more intensive war effort. The workers released from an industry may not themselves go into war work, but they often go into another job from which they push someone else; and, after a series of displacements someone is added to the war production program. But, looking at the figures, at the present time there is no indication that we are losing any large amount of labor because of workers' insistence they will do the job they have been doing or no job at all. As I say, it is partly a matter of experience, and complete knowledge of such a group of industries as this is very difficult to obtain. All I can say is that in the circumstances the War Production Board had to follow what seemed to be the best general guide.

Conferee: Is the manufacturer who is selected for concentration afforded an opportunity to sit down and discuss whether concentration will work in his industry?

Mr. Burns: The general procedure is something like this: There is a War Production Board committee which reviews all industries to find out whether they are at all eligible for concentration. If they are, the committee reviews possible methods of concentrating them. After a program which looks reasonably feasible has been drawn up, it is submitted to two committees usually—the industry advisory committee, which represents the industry, and the labor advisory committee.

What we expect from the industry advisory committee is the answer to two questions—namely whether the proposed plan is feasible and whether there is a better way of handling the matter. Criticisms are carefully considered. They may be rejected, because we cannot act on all the criticism we get, or we should never get anywhere. But all helpful criticisms are embodied in the program which ultimately takes the form of an order.

Occasionally a whole industry, if it is not too large, is called in instead of a committee. Of course, concentration plans are not suitable for discussion, at very large meetings.

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STANDARDS IN PRICE AND RATIONING CONTROL

By WILLIS S. MacLEOD
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BEFORE the General Maximum Price Regulation was issued in April, 1942, prices were controlled by the Office of Price Administration through ceiling price orders covering commodities on which price pressures were greatest. These orders dealt with specific commodities or with groups of commodities and raw materials in closely related categories. They applied mainly at manufacturing and wholesale levels.

Following Pearl Harbor, it became increasingly evident that, unless some broad mechanism for controlling the cost of living was initiated promptly, the price structure was in danger of becoming unstabilized. This was because of the extreme pressures generated by the curtailed production of civilian goods and the increase in consumer income, with its attendant demand on the consumer-goods market. These conditions gave birth to the General Maximum Price Regulation, which applied to commodities at both retail and pre-retail levels. The specific maximum price regulations then in force were continued under exceptions in the General Price Regulation.

In recent months the forces acting on the price structure have gained momentum. With the ever-increasing production of war goods, consumer income has pyramided, while the shortage of materials, plant capacity, and manpower has intensified the shortage of civilian goods—and it is expected that these shortages will cut more deeply into the civilian supply later. These pressures necessitate removing many commodities from the General Maximum Price Regulation and placing them under uniform, specific price regulations. The trend is more and more in this direction. Specific controls make it possible

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In 1934, Mr. MacLeod returned to Development to participate in a program of standardization and simplification of refinery equipment and material for the subsidiaries and affiliates of the Standard Oil Company of New Jersey. For the six years prior to joining the Office of Price Administration in February, 1942, he was in charge of the standards groups in the Development Company.

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to guarantee that commodities essential to civilian need are available at prices which people can pay.

IMPORTANCE OF QUALITY—PRICE RELATIONSHIP

There are many problems involved in establishing a quality-price relationship. No one will deny that the maintenance of this relationship is of first importance if the economy is to be stabilized. Any downward adjustment of quality without an attendant adjustment in price is as inflationary as an outright price rise. Under the General Maximum Price Regulation, and similar regulations covering smaller groups of commodities, control is exercised by freezing price and quality at the levels obtaining during a stipulated base period. Under these base period controls, some manufacturers, distributors, and retailers have found their normal margins pinched between the stabilized price level and increasing costs. Where these "squeezes" have been serious enough to threaten the life of the business, justifiable adjustments have been made. Plainly, in such cases, prices must be raised or costs lowered; and, clearly, the preferable method is to reduce costs. This can be accomplished either by OPA action or by action of manufacturers and distributors. Cost adjustments may be made in one of three ways: (1) through OPA action revising downward the price which the manufacturer or distributor must pay for the goods or materials he processes or sells, at the same time keeping the quality unchanged; (2) by reducing unit costs through introducing efficiency in manufacturing and distributing operations; (3) through allowing quality to deteriorate. It is through quality deterioration that serious damage can be done in the form of an upward push on the cost of living, and reports and surveys indicate that concerted action on the home front is needed to prevent the widespread use of this technique for relieving pressures on profit margins. Quality revisions downward have occurred in such essential items as clothing, some types of shoes, items of durable goods, rubber products, and house furnishings. As in the case of rubber products and some items of durable goods, quality reduction, in most instances, has been enforced by war shortages. In a number of other commodity fields a reduction in quality has occurred because of an attempt on the part of some to relieve a "squeeze" or to secure an increased profit. Everyone will accept war-induced deterioration with the grace of patriotism, provided adjustments in prices are made where warranted. Where war changes involve increased manufacturing costs, these are taken into account, so that ceiling prices established represent a fair and equitable margin for all.

The vast majority of manufacturers have voluntarily exerted every effort to comply with regulations, and I am certain they will continue to do so. If the honest manufacturer, distributor and retailer and the buying public are to be protected, those who cheat on the ceilings through quality deterioration must be taken to task with every means at our disposal.

Standards constitute the mechanism by which the quality is pegged to price. But for one reason or another, the word "standard" has, during recent

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months, been surrounded with an aura of confusion. A group of us, presumed to be versed in the "art," have attempted to define it along the following lines: "A standard is any statement or form of identification or basis of comparison, of measurable characteristics of a product or service, for the purpose of identifying the product or service. It may range in scope from a simple definition of one important characteristic to the complete coverage of all significant characteristics of both construction and performance. Definitions, specifications, methods of tests, simplification or classification are of standards." After writing this, we have sometimes wondered whether the definition has not added to the confusion. However, it roughly defines the basis on which the job is being done.

APPLICATION OF STANDARDS

While the technique of using quality standards is fairly universal in application, it might be well to differentiate somewhat in the application of these standards to varying types and classes of commodities. To define the qualities of natural products, such as foods, it is necessary to classify the range of varieties into bands of quality. For these commodities the applicable standards method is to establish grades, as has been done in the Standards of Agricultural Marketing Administration for meats, canned fruits and vegetables, and other agricultural commodities. This is frequently true for other commodities; several individual quality levels are necessitated by raw material or manufacturing process. In the case of rubber heels made principally from reclaimed rubber, four grades based upon simple standards of abrasive index and tensile strength were established. In contrast to farm producers, manufacturers can more readily adjust their production to the standard. Also. where improved production methods are developed, the standard can be adjusted to take them into account. The third application is through the development of a "war model" standard. War models are specified models of commodities designed to provide maximum wartime serviceability at given price levels, with a minimum drain upon labor, critical materials, and transportation facilities. These include standards employing performance requirements exclusively, those which combine performance requirements with minimum constructional provisions, and those containing only constructional specifications. The ideal approach to the production of war models is through the performance standard which establishes a minimum level of serviceability. This allows variation in manufacture consistent with available machinery and productive facilities. Such models should not be confused with the totally interchangeable standardized products, which have been common among individual manufacturer's products, nor does it necessarily follow that these models are identical in styling or design. For example: The English have utilized this technique quite extensively for clothing, and it is reported that people in Britain are better dressed than ever before. In cotton clothing some 80 basic fabrics are specified, together with certain essential constructional requirements which insure the most effective utilization of materials for maximum

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serviceability. Style is left totally free within the limitation of yardage per unit.

The standards developed for price control which I have discussed above may also be utilized to insure that rationed commodities represent fair and equitable serviceability in terms of coupon or point values surrendered. For example, one of the principal purposes of the "utility" programs in Britain was to direct production into serviceable items having, so far as possible, the lifespans used in calculating quotas and point values for the rationing scheme. Commodities rationed must be clearly identified in order that they may be distinguished from one another and readily separated from non-rationed goods. Standards not only make identification possible but provide a means of assuring the lower-income groups of a fair share of rationed commodities at fair prices.

I should be remiss if I failed to indicate the general categories of commodities in which OPA's standards activities are most concentrated. Greatest emphasis is being placed on items of consumers' goods of first importance to cost-of-living figures, and upon those which are most essential. These items are foods, fuels, clothing and footwear, textiles, rubber products, paper products and containers, and drugs. Work is also going forward on certain items of farm machinery and chemicals.

THE STANDARDS ORGANIZATION

Our standards organization consists of a comparatively small force of specialized technical people for each group of related commodities. The commodity sections in which nucleus staffs have been set up are textiles, leather and apparel, consumer durable goods, food and drugs, rubber and rubber products, home furnishings, agricultural machinery, and paper and containers. A testing branch to arrange for laboratory tests of commodities where necessary is also being organized within the Division.

Wide use is made of the facilities of government agencies which have carried on work in the standards field. These include the National Bureau of Standards, the Bureau of Home Economics and the Agricultural Marketing Administration of the Department of Agriculture, and the Food and Drug Administration. The assistance of recognized standardizing bodies, such as the American Standards Association and American Society of Testing Materials, is also being utilized in every possible way. Wherever feasible, standards and specifications which have already been promulgated by these agencies are used without change, or perhaps with some adjustments to fit wartime requirements. Industry is regularly consulted and participates in carrying out our work, and arrangements are being made whereby representatives of consumer groups, such as the American Association of Home Economists, the American Association of University Women, and the school, business, and farm women's organizations and others can assist us in the determination of consumer needs and in judging the effectiveness of our standards from the user viewpoint.

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Earlier, I touched on the commodity testing which is involved in developing quality standards. In the absence of adequate information on the qualities of goods being produced, it becomes necessary to test a few representative samples. This testing work will be conducted, for the most part, in government laboratories in Washington; but, as these facilities are now taxed to capacity, arrangements will be made for qualified commercial, private, and university laboratories to carry on the work. After having included standards requirements in price and rationed regulations, it is sometimes necessary to inspect the product. Then, where inspection does not enable one to determine whether the commodity meets the quality standards, tests are necessary. Since testing is a specialized activity and existing facilities can be utilized, OPA will not establish any testing bureau or laboratory, nor will any of our technicians be assigned to actual testing work, except in a very few isolated instances. I think it well to clear up this point since there has been some misunderstanding among laboratory and marketing people.

SIMPLIFICATION BRANCH

Standards work in connection with production limitation and materials allocation is carried on in the Simplification Branch of the Conservation Division of the War Production Board. This Division cooperates with the Office of Civilian Supply and the Industry Divisions of the War Production Board in working out standardization and simplification programs required for Board operations. Our standards activities are designed to provide the necessary quality identification for our price and rationing operations. Those of the War Production Board are concerned with production of goods and supplies, material allocation, and conservation of critical material.

The standards developed for a given material by either group can often be applied in the operations of both Offices. Consequently the work of the Standards Division and the Conservation Division is most closely coordinated, so that as much as possible of the work done by one can be utilized by the other, and arrangements are made to prevent duplication of work. Quite frequently, it is possible to complete the work speedily through assigning individuals from both staffs to a given project. The standardization and simplification activities of the War Production Board apply not only to the field of limitation and allocation but also to the problem involved in the concentration program. In any concentration program, the commodity or product to be produced within the industry concentrated must be decided upon, and a reasonable amount of information on the basic requirements to be met by the commodities must be made available to the industry. Through this mechanism, concentration becomes most effective in terms of maximum unit production, economy of materials, and distribution of facilities. While not a blueprint of the items to be produced, the standardization and simplification requirements provide manufacturers, some of whom have small organizations, with data on which they can base consistent production.

It is obvious that all wartime production, price, and rationing controls

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force changes in production and marketing practices. Standards are no different in this respect from any other type of wartime control.

Any well-worked-out wartime standardization program will, in the process of achieving the simplification which is its goal, naturally reduce the number of types, styles, and varieties offered in the markets and concentrate production on the varieties defined by the standards. In the great majority of cases, however, it is expected that there will still be as many varieties offered as are necessary to satisfy wartime needs of consumers. The essence of standardization is *not regimentation* but *controlled variation.* It is a technique which permits sound technological improvements. At a luncheon in Washington on December 10, Mr. Nelson stated: "Our war production effort is now entering the phase in which technological improvements must play a major role, if production of war goods must be expanded greatly during 1943. For a large part of the increase in production we must rely on our ability to find ways to make more with what we have." Again, before the Association of National Advertisers in New York on November 11, Mr. Nelson stated the importance of simplification, ". . . because it will enable us to get more goods with less manpower and less material." If properly applied, standardization and simplification are important ways of increasing civilian production or of preventing it from decreasing as rapidly as it otherwise might.

STANDARDS AND BRAND NAMES

I think also it should be made perfectly clear that the sole purpose of developing and using standards for consumers' goods, so far as our work in OPA is concerned (aside from their use in rationing), is to define quality in order that price may be closely related to it. Only in this way can we fulfill our responsibility to the American people. The use of standards, therefore, is in no sense "a reform," it is simply a requisite to adequate price control. Experience with existing OPA regulations, and the experience in other countries as well, has shown that introduction of standards and labeling does not imply the suppression of brand names.

For example: Approximately a year ago the OPA issued Maximum Price Regulation Number 89, which covers bed sheets. In this regulation sheets are priced according to grade standards, and the manufacturer is required to grade-label his product. As everyone knows, the use of brand names in merchandising bed sheets continues under this regulation just as it did before it was issued.

In Canada, grade-labeling of canned fruits and vegetables has been mandatory for more than 10 years. The nationally advertised brands have continued to sell in good volume. In fact, the principal result that can be traced has been an increase in the efficiency with which growers and packers have picked and processed the product, paralleled with a shift in consumer preferences to the better grades of canned fruits and vegetables. More grade B product has been processed and more of it sold.

In commodity and other markets standards have long been recognized as

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the only workable technique of creating a common language for buyers and sellers. Our most efficient markets—the wheat market, for instance—are efficient in large part because a buyer in Buffalo and a seller in North Dakota and a broker in Chicago each knows exactly what the others mean when they say, "No. 1 Red Winter Wheat." And they know because No. 1 Red Winter Wheat is defined by a standard. While this precision of definition and this efficiency in buying and selling are not possible of achievement to the same degree in buying and selling consumers' goods, it is still true that the use of standards provides a commonly understood language for buyers and sellers and thus simplifies marketing operations for consumer goods.

When a third party, in this case the OPA, enters the buying and selling transaction, it is of particular importance that the terms of the regulations be as simple as possible and that they have the same meaning for buyers, sellers, and enforcement agents. The main technique for simplifying regulations and making them understandable is the use of specific standards to which specific prices can be tied.

In general, I think it can be said that, while manufacturers and sellers will naturally have to make adjustments in marketing practices, those who give fair quality at fair prices have little to fear from standardization and simplification as it is being worked out in Washington.

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PRODUCTS, PRICES, AND SALES POLICIES UNDER OPA

I. THE MARKETING EXECUTIVE'S VIEWPOINT

By A. O. BUCKINGHAM
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"PRODUCTS, Prices, and Sales Policies under OPA" is a subject with all kinds of controversial possibilities. For that reason, I intend to steer clear of the technical side of OPA regulations and discuss only the broad picture of a controlled economy and the ways in which it has affected my own company.

There are two wars going on—one on the far-flung battle fronts, the other on the economic home front. To supply both fronts adequately, we must rely on three classes of manufacturers: those who can convert completely to war work; those who can convert in part; and those who cannot convert and are needed *not* for essential war work, but for the production of civilian goods. All three are very important to winning the war and to winning the peace. Since OPA regulations deal largely with civilian supplies, I shall limit my talk to the civilian economy on the home front.

Everyone knows that had the speculative buying surge of the early part of last year continued in the wholesale markets, inflationary pressure would have spread sooner or later into the retail field, ultimately skyrocketing prices in all lines of goods. Fortunately, something was done about it. While many of us have our own ideas on how prices should be controlled, the government

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After the war, Mr. Buckingham went to work for Cluett, Peabody as an order clerk in the company's Cincinnati office, later becoming a salesman in southern Indiana. Then he was transferred to San Francisco as assistant office manager, and from there went to Los Angeles as sales manager, and later on to Troy, N. Y., as advertising manager. He is now vice president in charge of advertising and market research, and a member of the board of directors.

Mr. Buckingham is also a director of the Association of National Advertisers and National President of the Council for the Promotion of Father's Day. He is a member of the Advertising Club of New York.

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formula as developed in the General Maximum Price Regulation has been enacted by Congress. Since it is a law, it is up to each one of us to make it work.

Of course, it is the natural instinct of any business man to be wary of government control over the price structure of his product. Moreover, there are many cases where severe hardships will be incurred, and those who will suffer them are certainly not expected to get up and cheer for the OPA. However, looking at the wartime economy of our country as a whole, I think we all owe Mr. Henderson a great tribute for the controlling measures which he instituted in the fight against inflation.

THE LONG-TERM POLICY

With cloth prices soaring in some instances 100 per cent over those of the year before, I know that we ourselves more than welcomed price ceilings, despite the fact that our frozen retail price increase amounted to only 12.5 per cent. Even today, at current prices the minimum increase in the cost of goods is 50 per cent of pre-war costs. Offhand, such a wide discrepancy between the cost of the material and the cost of the finished article would mean a pretty black picture—or should I say *red* picture? Frankly, we were greatly concerned. Moreover, we had decided many months prior to the enactment of the Price Control Act that we would comply with all government pleas and maintain our old prices just as long as we possibly could, regardless of competitive price rises and the impending threat of price freezing. This was done in part for patriotic reasons, of course, but not entirely, since our reluctance to tamper with retail prices was in keeping with basic long-range policies adopted by the company in 1930, and continuously maintained throughout the economic uncertainties of the last depression. Maintaining a stable price in the face of a rising market, we realized, would give us a wonderful opportunity to introduce our products to many consumers who hitherto had been unable to afford our merchandise, and at the same time would assure the continued loyalty of our regular customers. Instead of looking forward to a high margin of profit on unit sales, we decided to streamline production, sales, and advertising operations, and to rely upon greater volume to pay off our stockholders for their investments.

STANDARDIZATION

This policy, of course, called for many drastic changes throughout our operations. With the premise that quality had to be maintained at any cost, not only for reasons of our own but also because it was part and parcel of the General Maximum Price Regulation, we looked elsewhere to affect economies. Fancy pleats and unusual style constructions went first; then French cuffs had to go, along with style frills and furbelows of all kinds. I might add here that none of these high-style features was greatly missed by the consumer. From our standpoint, the simplification of our products allowed us to shift our production emphasis entirely to standardized merchandise and so to

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increase our production to an all-time high. But in view of the fact that some of our production capacity had to be turned over to war goods, and because of the manpower shortage, the material shortage, the restrictions on new machinery and equipment, etc., we were still unable to supply the tremendous demand for civilian goods.

We examined our business again and again, going over every operation with a fine-tooth comb. and each time we learned more about it than we ever knew before. But with all this scrutiny, we still faced a growing scarcity in cotton combed-goods material. Consequently, we purchased our own textile mill, even though we were confronted with the prospect of turning 60 per cent of its production over to war materials. We found, however, that our investment in this new mill made it possible to contribute further to the war effort, and at the same time to offset the critical shortage of goods for civilian use.

WIDER ACCEPTANCE

After nine months of price control, we have found that we were correct in our judgment and that our products are gaining in popularity and receiving wider consumer acceptance on all economic levels. Although the prices under OPA ceilings appear low in comparison with those of some competitive lines—and put considerable "squeeze" on us in view of fixed overhead and rising labor costs—we still hold to the belief that distributing merchandise as widely as possible at the lowest possible cost is a sound way to build a business for the future.

DURING POSTWAR PERIOD

While price control is the backbone of our civilian war economy, its importance should not be minimized as a stabilizing influence on prices and the consumption of goods during the transitional period after the war. Moreover, although we naturally think of price control largely in terms of economics, we should not forget that the morale of the soldier on the fighting front will be improved if he can go to war with full assurance that his family and his savings will not suffer the ruinous effects of inflation. If we at home fail to beat inflation and do not exert every effort to maintain a stabilized economy, we shall have a lot of accounting to do when our boys come home.

The interpretation of price control regulations to more than 2,000,000 retailers and 200,000 manufacturers in this country is a bigger job than the government bargained for. Price control was originally instituted in England and Canada, where population centers are more concentrated and can easily be managed by price deputies. Unfortunately, our country is spread over some 3,026,789 square miles, with more than 56,000 civil divisions and a population of 130,000,000 people.

It's amazing that price control has worked at all in view of the many complicated regulations. Nevertheless, it has worked to a considerable extent and has somehow managed to check a runaway rise in prices, despite the increasing shortages in consumer goods. Retailers, by and large, have done

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their best to comply with the spirit and letter of the law. The government is well aware of the confusion arising from the complicated nature of individual ceiling prices for every store and will, I believe, make the necessary adjustment.

By and large, our sales policies have not been directly affected by OPA regulations, aside from the pricing of our commodities. However, a well-established sales policy of ours fits in so well with the whole idea of retail selling under OPA that it bears mention here. I am referring to our related-selling program, which was originally planned to facilitate sales of more than one item of related merchandise to the same customer. This program, which involves the principle of co-styling related items and displaying and stocking them together, was originally conceived as a means of increasing sales and profits for the retailer; in addition, we found that it also helped to consolidate departments and to conserve floor space and manpower. And we discovered that other savings were effected all along the line, since the program resulted in more items per sales check, less bookkeeping, less wrapping, fewer deliveries, and fewer returns—which generally made for more efficient storekeeping.

We have launched a campaign to help educate the retailers through trade advertising and brochures on the principles of related selling and the economies that can be made during this period, when retailers are having such a difficult time making ends meet.

From a sales operative point of view, OPA regulations have caused little or no conflict. However, with shortages so prevalent in certain lines of merchandise, we have been compelled, like many other manufacturers, to set up our own rationing plan in order to insure equitable distribution among our retailers. Because of the unusual demands for merchandise, we have warned our salesmen to guard against a "sellers' market" attitude, We know that it will not be long before the shoe goes on the other foot, and if salesmen get too cocky now, it is unlikely that they will ever be able to retrain themselves for highly competitive future postwar business.

Our salesmen, with limited merchandise to sell, are learning for themselves that retail contacts must be held and studied, not by merely showing samples and taking orders, but by acquiring complete knowledge of the retail operation and complete understanding of the problems confronting retailers today. Selling must be conducted on a more scientific basis, and salesmen must know markets and understand market research in order to acquaint their customers with the facts. Each salesman must endeavor to be, in effect, a merchandising counselor. The amount of merchandise he sells will be in direct ratio to what he contributes to good storekeeping and sound retail management.

Products, prices and sales policies under OPA present a different problem in each industry. While my own company has not been in conflict with the government viewpoint, as I have pointed out, we have had to make adjustments here and there. By no means have we solved all our problems and, as we all know, many new ones will develop for the duration. We shall not know all the answers, nor indeed, how many mills make a cent.

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Who said democracy is not workable during wartime? We have restrictions and regulations for the common good of all. However, in the main, we still possess the system of free enterprise. We cannot relax one minute and rest on our oars, either on the production line, or in the effort to tell Americans and the world, through advertising and every other medium, of the necessary part free enterprise plays in the life of free men. An active educational program is essential to the maintenance of our system of free enterprise. During this period when control is justified by the emergency, there is a real danger that fundamental changes in our free enterprise system may be imposed without sufficient consideration of their long-range implications.

It is important that the public be kept informed at all times on the fundamental soundness of free enterprise. The average consumer believes that business is founded solely for the purpose of profit. If he can be taught that the objective of business is service, and that the incentive and reward is profit, then we can restore the personal initiative of every American. This initiative stimulates ingenuity and sound thinking of a type seldom shown by those who now confuse security with opportunity.

Since I have been closely associated with advertising, in closing I cannot help recommending the extensive use of advertising as a medium for explaining the fundamentals of free enterprise. Advertising is the free speech of free enterprise. A free press is dependent upon continued advertising. A free press is a requisite of political freedom; and, by the same token, advertising is a requisite of economic freedom; and economic freedom means freedom of production and freedom of choice—both vital safeguards to free enterprise.

II. THE OPA VIEWPOINT ON PRICES

By C. L. CHRISTENSON
Regional Price Executive
Office of Price Administration
Chicago, Ill.

THE problems of business management are difficult enough under normal circumstances. When those problems have been superimposed upon them a series of regulations from the Office of Defense Transportation, from the War Production Board, from the War Labor Board, from the Office of Price Administration, and from other government agencies, the difficulty is tremendously increased. I want to make it clear that those of us who are sitting on the other side of the desk are fully aware of the complex problems which we have imposed upon the business community.

If we are aware of that complexity, why have these regulations been made? Why have we gone ahead in the face of the realization that the business community was already overburdened with the problem of effecting a gigantic increase in production?

Mr. Buckingham very cogently classified industries and spoke, for the most

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part, concerning the so-called civilian industries, where little conversion to the manufacture of military equipment is possible. For fear that someone may miss the implication of price control for industries in which conversion to military production is possible, I should like to direct a few of my remarks to the significance of the price program to such industries. Beyond that, I should like to sketch the stages through which the OPA program has passed, and describe in some little detail the stage in which we now find ourselves. With this background it will, perhaps, be easier for the business man to tolerate the irritations which are sometimes imposed upon him. For those measures are not being imposed capriciously or spitefully. Steps are being taken considerately, sometimes reluctantly, but resolutely and with a single purpose in mind. Today there is but one purpose for us all, one purpose that dominates all our activities. That is to win the war and win it as rapidly as possible.

INCENTIVE TO CONVERT

Lest we overlook the fact that price actions may provide an incentive for industry to contribute its maximum toward that objective, I shall go back a few months to the time when the process of conversion was at its height.

Conversion, of course, is not yet over. Conversion will never be over while the war lasts, for the longer it lasts the more likely it is that further conversion will be necessary, and that we shall have to tighten our belts still more, to get along with less and less civilian merchandise, and to step up our production of military goods still more.

Let us go back, however, to the period when conversion was at its height. Let me point out the significance of certain actions which the OPA took at that time.

About last October, in the period of so-called selective controls, the OPA took a number of actions with respect to specific industries. One of them I should like to discuss for illustrative purposes, because it happened to concern an industry with which I have some familiarity and in the regulation of which I participated.

OIL FIELD DRILLING EQUIPMENT

Early in October the OPA took a price action of a relatively simple kind with respect to the prices of oil field drilling equipment. To strip that action of all its details, manufacturers of oil field drilling equipment were asked to maintain their list prices as of October 1. They were not prohibited from selling below those prices, only from selling above them. If that particular request

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imposed an undue hardship, we asked that they petition the Office and submit certain standardized materials for review before contemplating any price change.

Subsequent to that action, the War Production Board took a series of actions, one of which had the effect of reducing the amount of material available to the oil field drilling equipment manufacturers and so reducing production of equipment for the oil fields. Obviously, there were many reasons behind this action, but one of the most important was that it was necessary to divert critical materials to direct production of military implements.

Shortly after that we received a number of petitions from various manufacturers. Those petitions were supported by different types of data, but one argument appeared very frequently:

> We could maintain the prices that we had established as of October 1 at the time the Office of Price Administration took its price action. It was then a fair action. Now, however, another agency of the government has refused to let us manufacture the same quantity of merchandise that we were manufacturing at an earlier period. Thus we are denied the possibility of reducing our overhead costs to the levels which prevailed prior to the action of the Office of Price Administration; or, to put the matter somewhat more positively, this action of the War Production Board increases the overhead cost per unit of product. That being true, we now ask for the permission to raise our prices above our October 1 prices.

I take that concrete case because it is illustrative of a whole series of cases which will confront us. I shall give our answer to this petition and our reasons for it.

We said to such petitioners, "The answer is very simple. The answer is no."

We could have asked for a great deal of accounting data. We could have analyzed the cost records. But all such analysis would have been irrelevant. The real point at issue was: Shall the OPA permit the free adjustment of prices in such a way as to neutralize the actions which the War Production Board has taken to assure the greatest amount of material flowing into military purposes; and, more than that, shall we remove the incentive which the oil field drilling equipment manufacturers may have to convert idle capacity to war production?

I think that, when the problem is stated in that fashion, any business man will realize that had he been sitting where we were, his answer would have been the same.

Price control, therefore, is a device which makes a positive contribution to the conversion effort, since it prevents the free play of market forces from neutralizing actions which are intended to direct economic activity into channels which will make the maximum contribution to the war effort.

Conversion is always hard. There is no use overlooking that fact, and we do not overlook it. We do not say that it is an easy thing for a man to convert his business or to leave his old job and begin a new one. A war, however, imposes exactly that responsibility upon us, and there is no use running away from the fact.

So much, then, for the contribution which price control can make to conversion. I should like to sketch now the stages through which the OPA program has passed, and describe in some detail the stage in which we now find ourselves, in order that everyone may appreciate that we are concerned, des-

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perately concerned, with adjusting our actions to the circumstances of the particular market and to the particular stage of the war in which we find ourselves, as well as to the requirements of industry insofar as those requirements are consistent with our main objective, winning the war.

The first action of the OPA concerned used machine tools, which is really quite significant—a fact that we frequently overlook as we get further away from the date at which the action occurred. In the conversion of industry, metal-working plants are obviously those affected earliest. They are the plants most prominent in production of direct implements of war. In conversion of metal-working plants, the first thing required is machine tools. More than that, machine tools themselves require a rather substantial length of time to produce. Consequently, the easiest way to get machine tools is by purchase of those already manufactured, if there are any available that can be reconstructed slightly and put to new uses.

We found at a very early stage, therefore, that the pressure for conversion had pushed the prices of used machine tools up to sometimes two and three, and even four, times the prices of similar new machines. It was on that situation that the Office of Price Administration acted first.

Then, as the pressure spread to the materials used for the fabrication of military instruments, we took action on them also. And so on we moved pretty steadily through the heavy industries, even before the Emergency Price Control Act was passed and while we were still working under the authority of the Executive Order.

It was not until the early spring of 1942 that the pressure became general upon products sold at retail. Prior to that time, industry was operating at considerably less than full capacity; there was unemployment in substantial amounts, even of skilled workers. But as unemployment shrunk, idle factories began to hum, the pressure upon retail markets made itself apparent. If one looks at the retail price index for the first quarter of 1942, one finds that the upward movement was so sharp and so serious that we were left with no choice. We had to take, and take rapidly, an action across the entire front.

Many of us did so, I may say, with great reluctance and with a little fear, realizing that it is no small task and no small responsibility to put the entire American economy into a straitjacket. For the General Maximum Price Regulation was substantially that. It was a crude instrument, developed rapidly to deal with a major emergency.

I should like to call attention, however, to the fact that, although working rapidly, we did the very best we could to devise an instrument which would fit the individual peculiarities of different firms. We established as the maximum the prices which had been charged by the *individual* firms themselves during a base period.

There were a number of special provisions, of course, designed to supplement that, but the basic philosophy was: We must have an action that is immediate, that covers the entire front; but it must be tailored as nearly as possible to the individual firm, not merely to the the individual industry.

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Since then we have been trying to correct many of the anomalies which that kind of technique necessarily produces. We realized that, at certain levels in certain retail fields, operating margins would be narrowed and there would be "squeezes." We have attempted to correct them, and I may say it is a tribute to American industry and to the cooperation of wholesalers, retailers, and manufacturers that, working together, we have at least distributed the "squeeze" in certain industries, although we may not have completely removed it. We have made it possible for a part of the "squeeze," which fell completely upon the retailer under the earlier provision, to be distributed among wholesalers and manufacturers; thus the burden does not fall quite so heavily upon anyone. We have, however, created some other "squeezes" that may still require adjustment.

This process of making corrections, of tailoring regulations to fit individual industries, has, of course, created a complicated structure. No one realizes that more than those of us who try to master that structure every day, for we do not quite succeed.

Consequently, we are now in another stage of activity. That is the stage which we, for lack of a better name, shall call "the stage of simplification." I am not so naive as to suggest that simplification is going to mean the full blossoming of the business man's dream—no further worry about price control. But we do feel, and feel quite seriously, that the corner grocery man ought to be able to find most of the regulations which affect his business within the compass of a small pamphlet; and that, if he honestly wants to comply, he should be able to do so without undue burdens. He should know reasonably well what the regulations are, and he should not have to spend so much of his time worrying about price regulations that he has none left in which to take care of the many other aspects of his business.

So we are now consolidating all the regulations that affect food stores. That program is pretty far along. I cannot say exactly how far along because the original regulations, of course, all emanate from the Washington office. I can say, however, that the regional office has been participating actively by attempting to obtain opinions from retailers throughout the region on provisions designed to simplify the use of the regulations.

May I say one word in closing? We know that simplification is not necessarily going to give us all that we hope for. Simplification is not the abandonment of price control. It is an effort to bring within a narrow compass those things which affect each individual industry. Even after simplification has been carried as far as possible, living within the scope of price regulations will still require considerable effort.

In the very nature of the case, price administration, in a complicated business structure such as we have, can never be really simplified; but I hope I have shown that we are going to do everything that we can to facilitate effective operation of industry. We know we have a big job, and we are taking it seriously.

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III. THE OPA VIEWPOINT ON RATIONING

By EDWARD F. STEGEN
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ECONOMICALLY, this is a strange, new world we are living in. Old standards of values are no longer valid. Many of the economic relationships of one, two, and three years past have grown obsolete, and we have had to improvise new methods of work to meet the necessities of war. Marketing men, who work at the very heart of our economic life, need not be reminded of this. Every hour of every day brings some manifestation of these new truths.

American economy is face to face with the most severe test and greatest challenge it has ever encountered, and it will require all the best elements, all the resourcefulness, and all the selflessness of our leadership and the whole people to meet that challenge.

The question that dogs our every step today, and will continue to shadow us until we have won this war, is whether we, as a nation, can build a successful total war economy. In the 13 months since Pearl Harbor, we have solved, or are well on our way toward solving, many of the problems of such an economy. Industrial conversion from peacetime to wartime production, manpower mobilization, increased industrial and agricultural output, transportation, price control and rationing—to mention but a few—each in itself presents a colossal task that tests the fibers of democracy; and we must meet them all at once and successfully. The dictates of war are hard and uncompromising. Defeat is the only alternative unless we succeed in building a strong, efficient economy for total war.

ATTITUDE TOWARD RATIONING

Rationing is an integral part of a total war economy, and—I believe—it is the most maligned and least understood of any aspect of our economic fight. There are many reasons for this, and it would serve no purpose to speak of them all here. I believe the dominant reason, however, is that there is an almost instinctive tendency to approach rationing with a negative rather than a positive attitude. Too often we view rationing as a burden which we are

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Mr. Stegen spent four years on active duty as a captain in the Quartermaster Corps, Adjutant General's Department, U. S. Army. He has also directed the public information program for the Social Security Board in the Chicago Region and served briefly as an economist for a group of finance and investment companies. He has done graduate work at Washington University, St. Louis, Mo.; the University of Indiana; and the University of Chicago.

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not fully convinced we must shoulder instead of as one of the weapons needed for the successful prosecution of the war. Why do we take this attitude? Here, again, there are many reasons, and once more no useful purpose would be served by enumerating them. However, I think the basic reason for this reaction is the lack of general understanding of rationing, the impression in the minds of many people that it is an inevitable wartime phenomenon, superimposed upon the economy of our country in a hit-or-miss fashion, without regard to the consequences it will have on the social, political, and economic life of the nation. This is far from the truth.

No rationing program in the United States has yet been instituted (and no program will be instituted) without meticulous and searching investigation to determine whether it is necessary, whether it is feasible, what its consequences will be, and what particular technique is best suited to the rationing of the commodity to be controlled.

REASONS FOR RATIONING

Business men face new questions and problems as a result of rationing. It is impossible to find an answer broad enough to be applicable to each question, but I believe that business men will find it helpful to keep in mind "the other side of the picture," so to speak. It is of this other side I wish to speak. This "other side" is the theory upon which all the rationing programs of the government are predicated.

Rationing was begun in the last war; but, as a technique for the distribution of consumers' goods, it was not fully developed until after *this* war began. It is, therefore, comparatively new, and it is being constantly developed and extended. The reasons why rationing may be undertaken are varied, but consumer rationing is so socially cumbersome and fraught with so many administrative complexities that no belligerent country—Germany, Italy, Britain, or the United States—has undertaken it except when the supply of consumers' goods was insufficient to meet normal demand.

Although this has been the one and only reason why the various belligerent countries have instituted rationing at the consumer level, it should be noted that there is an inter-action and an inter-dependence between rationing and price control. Rationing cannot be successful without price control; nor can price control be effective without rationing. To let the price of a scarce essential article mount to an abnormally high level is in itself a form of rationing, because this rising price will drive from the market all but those in the higher-income groups.

Therefore, price control, which keeps the price of the commodity within reach of all, necessitates rationing. The reason is apparent. The gigantic wartime purchasing power would sweep the commodity from the market in a very short time if there were no regulation of its sale through the medium of rationing.

When the supply of consumers' goods falls below normal demand—the only condition the government deems important enough to justify a rationing

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program—the objective of rationing is twofold: (1) to bring supply and demand back into balance; (2) to assure equitable distribution of available supplies.

REASONS FOR SHORTAGES

There are, of course, numerous reasons for shortages of consumers' goods in wartime. Shortages may be created by enemy occupation of, or threat to, our sources of supply—as in the case of the Philippines, Malaya, and Burma, from which we received a large portion of our sugar and 90 per cent of our crude rubber.

Shortages stem also from the problem of transportation. The most notable example of this is the gasoline and fuel oil situation on the East Coast. The need to employ our shipping in more essential work, coupled with the submarine menace in the Atlantic and the Caribbean, is the direct cause of coffee rationing, and likewise plays a part in the necessity for sugar rationing.

The diversion of raw materials, industrial plants, and labor from peacetime to wartime use is a third cause of shortages of consumers' goods. This applies to automobiles, bicycles, refrigerators, milk cans, metal fencing, and many other kinds of durable consumers' goods.

And, finally, a shortage may develop which is not absolute, but relative. We may be producing as much or more of a commodity as we did in peacetime, but not enough to meet the increased demands of a war situation. The present strain upon our meat production and distribution system is typical of such a condition.

DETERMINING THE NECESSITY FOR RATIONING

But the first appearance of an absolute or relative shortage does not automatically call forth a rationing program. In determining whether a commodity should be rationed and when rationing should be initiated, the government operates on the theory that rationing is to be resorted to only when a commodity essential to the welfare of the community becomes so scarce that it would be dangerous to leave its distribution to ordinary, pre-war mechanisms.

A number of political, administrative, and economic considerations are reviewed by the government in determining whether the rationing of a particular commodity, or group of commodities, is feasible and necessary.

Rationing administration is exceedingly complex and costly. This aspect is deemed so important by the Office of Price Administration that rationing of any given commodity is considered inadvisable unless there is a very definite and very urgent need for the absolute control of the commodity at the consumer level.

The degree of public support which can be expected is another determining factor in setting up a rationing program. We know that premature rationing is doomed to failure, since public opinion will not accept rationing unless it can be fully justified by the demonstrable seriousness of the supply-demand situation.

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In addition, the practicability of enforcing rationing regulations, the inconvenience to business and to the consuming public, and the degree of scarcity are taken into account, and the government must decide also whether the shortage is absolute or relative, and whether the scarcity can be offset or alleviated by some other means. All these factors are considered before the government finally decides what commodities should be rationed and when the various parts of the program should be applied.

In some instances, other means of combating scarcity can be found, and are more desirable than rationing. These include the substitution of another commodity on which production can be expanded for the scarce item; the revamping of quality standards of a scarce commodity, making less raw material do more work; an increase in working hours, speedup of plant operations and relocation of production; readjustment of exports and imports; diversion of transportation facilities. Finally, the government must ascertain whether the situation cannot be dealt with by *voluntary* rationing. All these possible alternatives are investigated before a rationing program is initiated.

TECHNIQUES OF RATIONING

No general or theoretical statement can be made on the techniques of rationing—on *how* to ration. Certain techniques have been developed; and, on the basis of accumulating experience, other techniques are being developed. So far no universal rationing technique—a technique by which all commodities can be rationed—is in successful operation either here or abroad. We must ration certain commodities by one method and other commodities by another. The reason is apparent. To ration durable goods as we ration sugar would be impossible.

There are several ways of determining which of several techniques is best suited to the rationing of a specific commodity. A technique must be judged on suitability to the specific problem of supply and demand; flexibility; degree of equity; administrative simplicity; operational simplicity; and, finally, on the degree of public acceptance it is likely to obtain.

At the present time, we are using two consumer rationing techniques. The permit system for automobiles, bicycles, tires, and other durable consumers' goods, and the over-all stamp or coupon system for sugar, coffee, fuel oil, and gasoline. We shall soon inaugurate a third technique—the point system, which will be used initially for the rationing of processed and packaged foods.

As an illustration, judged by the standards I have outlined, the permit system—the most restrictive technique—is the only possible system by which we could ration automobiles. It is the only system through which we could be assured that our limited reserve stock of trucks and passenger cars would go where it would contribute the most to the welfare of the community and to the war effort.

War Ration Book One—commonly known as the "sugar book"—will be used along with War Ration Book Two, which introduces the point system. Sugar and coffee cannot be rationed satisfactorily by the point system because

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they are commodities universally used for which there is no generally accepted substitute and which require a comparatively large and well-distributed supply. In the rationing of processed foods, however, an entirely different situation prevails. One vegetable can be substituted for another. Different individuals may prefer one kind of vegetable to another.

The point system, allowing the maximum flexibility, permits the consumer to choose between different items in a commodity group. This assures the consumer that he will not be forced to purchase a food item he does not want or go without entirely. This selective feature of the point system makes it one of the most acceptable to the public, and the point system, together with the over-all system, is the most administratively simple rationing technique. On the other hand, the over-all system is the least flexible and ranks low in equity. It should not be assumed that the program which distributes the available quantity of goods in shares which are most equal (share and share alike) is necessarily the best system. Quite the contrary, a rationing program which permits sick people who require more milk or sugar than others to obtain a larger quantity is more equitable than a system that mechanically distributes a given quantity of goods to all persons.

BALANCING FACTORS

All these factors are considered before the government decides upon a particular rationing technique. Each favorable or unfavorable characteristic of a given technique must be weighed and judged, balanced and counter-balanced against all other advantages and disadvantages inherent in it. Thus it might prove necessary to forego a certain amount of administrative simplicity in the interest of equity. To a degree, such a situation prevails in the fuel oil rationing program. It is apparent that a straight percentage-cut system of rationing fuel oil would be less complex than the technique now employed. However, the straight percentage-cut system would defeat the basic "equality of sacrifice" principle of rationing because it would show regard to the individual who had squandered fuel oil in the past and penalize the one who had been economical.

Briefly, that is the theory of rationing—the guide to action used by the government in determining the need and selecting the technique of rationing a commodity or group of commodities. It is, in fact, the "OPA Viewpoint on Rationing." Rationing is a serious and complex business and one which the government does not enter into lightly. But this is a serious and complex world in which we live. All the human and moral values of free men are threatened by forces of bestiality and slavery. We must protect those things on which we have placed high value with every weapon at hand. If we do not, civilization as we have known it, as we want it to be, will be drowned in the blood flood of tyranny, hate, and death which the enemies of civilization have unleashed.

The Office of Price Administration, as an agency of the government, views rationing as a weapon in this war of survival. Rationing, when instituted, is

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adopted only after all alternative remedies have been exhausted and the rationing program itself has undergone equally exhaustive study and planning. It is instituted with full appreciation that it will demand adjustments on the part of industry, business, and the public. But I am convinced—I know—that the necessary adjustments will be made, because as a nation we have resolved that there is no job so big nor problem so complex that it will stand between us and complete victory. That is the American way of doing business—historically and particularly in this gigantic struggle for the freedom of all men.

RATIONING AND CONSUMER HABITS

By FRANKLIN R. CAWL
Director of Research and Sales Promotion
Farm Journal and Farmer's Wife
Philadelphia, Pa.

THERE has probably never been a time in our history when the established channels of trade have been as upset as they are today. And in the upheaval that has taken place we have disrupted many of the buying habits of the consumer.

What buying habits have been upset? How far has the upset gone? How long will it last? What will the long-term effects of this period be? What losses can we expect in trademark and product prestige? All these questions and many more like them are being asked daily by manufacturers, sales managers, and marketing men in every line of business all over the country. I shall try to provide at least directional answers to some of these questions, drawing on facts which have been collected daily for the last three years from a continuing panel of consumers.

THE CONSUMER MARKETS

Let us look for a moment at our consumer markets as they appear today. The first is the white-collar class, and from it we can expect very little during the war and probably little for a long time after, because of rising taxes, higher living expenses, and little or no hope on its part of increases in income. The

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second group, factory workers and labor generally, has always been the problem child of our economic system. These people have never spent wisely, are always among the first on our relief rolls, and even today are doing much frivolous spending of money that should be saved for the difficult period when war plants will go through conversion to peacetime operations. The third and last group is composed of farmers, really small business men, each with a small defense plant of his own. These people have always been a solid part of our economic life, even though at times not so well paid for their labors as other groups. But let us look at the farmer today. If we take the more than $16,000,000,000 that the farmers received in 1942 and divide it by the nearly 7,000,000 farmers in the nation, we find that the average income is almost $2,500 a year, which really is not bad.

FARMERS AS CONSUMERS

When this farm income level, or any other farm income level, is compared with the income level of the city man, it will be seen that, taking required living expenses into account, the farm family has more money to spend than the urban family. It must be remembered that the last quarter century has seen good roads, telephones, electric lights, automobiles, and all kinds of home improvements enter the farm areas. It must be borne in mind also that, during this period, farm homes have been sending a greater percentage of their children to high schools and colleges than homes in big cities. Farming habits have changed with increased education and the rapid introduction of mechanical equipment, and at the same time the farmer's living habits have changed. Today he goes to the movies just as the city man does, and his wife goes to the better dress shops and trades at the chain grocery and the drug stores just like anyone else. Yes, farm families brush their teeth with nationally advertised dentrifrices and buy nationally advertised food products, perhaps in even larger quantities than city families because, in general, they have greater appetites and larger families than city people.

If one were to plot the growth of the total population of the United States from, let us say, 1840 to the present, and then plot against that the growth of

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From 1920 to 1929, Dr. Cawl was Professor of Merchandising (including advertising and sales work) at the Wharton School; from 1929 to 1935, he was in charge of research and promotion for the *Philadelphia Public Ledger;* from 1935 to 1939, in charge of research and promotion for the *Philadelphia Inquirer.* He has been director of research and sales promotion for the *Farm Journal and Farmer's Wife* since 1939.

Dr. Cawl originated and directed the Cawl Survey of Philadelphia, conducted for the Curtis-Martin Newspapers, Inc.; he also originated and directed the "Continuing Study of Farm Family Purchasing" for the *Farm Journal.* The latter received the Medal Award from the Annual Advertising Awards of 1942 sponsored by *Advertising & Selling.*

Dr. Cawl was special advertising editor of the New Webster's Unabridged Dictionary. He has contributed to various trade publications, has written merchandising manuals for large companies, and is author of and contributor to a number of books. He is a consultant and lecturer on merchandising and marketing.

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the railroads, the schools, the telegraph, and such things, one would find very little variation in the lines on the chart. However, the picture changes materially if one plots against population, the registration of automobiles, the sale of electric refrigerators, the installation of telephones, the increase in movie income and chain store sales, and a number of the other things that have made this 20th century so different from the era which preceded it.

Now let us, in the same way, plot against the farm population growth the development of the automobile, the telephone, the electric refrigerator, etc. We shall find exactly the same pattern of development that appeared on the previous chart. The only difference that will be noted is that the development started five to ten years later with the farm group.

ORGANIZING THE STUDY

With these facts established, let us turn to the study from which most of the information presented in this paper was derived. In September, 1939, after careful preparation and much pre-testing, 2,000 farm families started to keep daily records of the way in which they spent their money. The story of the organization and training of this group, which covers 129 counties in 41 states, is interesting in itself, but suffice it to say that it was scientifically organized, that members were paid for their trouble, that they were trained for three months before any of their material was used in reports, and that every precaution was taken to insure that a true and complete picture would be obtained.

This "Continuing Study of Farm Family Purchasing" has cost *Farm Journal* almost $300,000 since its inception. It was designed purely as an economic study and *not* as a study of *Farm Journal*'s readership. The field work was done by the Market Research Company of America, and all correspondence with the group was carried on by that organization, without *Farm Journal*'s entering the picture in any way.

With our "Continuing Study of Farm Family Purchasing" in full operation, we were able to watch buying habits during the last normal period and to see what happened when the tempo of the country was stepped up in 1941 and finally what has taken place since Pearl Harbor.

SEASONAL TRENDS

In our first year of operation, we were content to watch the seasonal buying trends develop for various types of commodities, to check monthly per family consumption, to find the net number of families who used a given commodity and the distances traveled for different articles. For instance: Between 80 and 86 per cent of the families are in the market every month for some kind of cereal. Cold cereal begins to pick up in March, reaching its peak in September, while hot cereal goes through a nosedive in that period, but begins to show its first signs of recovery during August. The number of packages of cereal used drops off during the cold months to about 3.1 per family per month and increases to about 4.9 per family per month in August.

We also know that, while only 77.1 per cent of the families buy coffee

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every month, 96 per cent use coffee during the year. The average family uses nearly 50 pounds of coffee a year, yet even here there is a seasonal drop during the summer months, with a proportional increase in the use of tea.

OTHER PURCHASES

When it comes to purchasing clothing, women show the greatest variations. A house dress will be purchased in the neighborhood or small town store, while better dresses, coats and accessories demand longer journeys to larger stores or larger towns. And then, too, we often make surprising discoveries, as in the matter of toothbrushes. We found that door-to-door sales, variety store sales, and department store sales accounted for almost one-quarter more brushes than the national manufacturers realized were being sold, and that one door-to-door outfit was in third place in number of brushes sold to the farm market.

While these examples all deal with more or less regular happenings, they illustrate the foundations which we were building and the background against which we must view the happenings of 1942, and those of 1943 as they develop. And here we might call attention to the fact that the families reporting today are exactly the same families that started the panel work in 1939. This is the story of what the *same* families are doing today under different conditions.

FIRST COMPARATIVE STUDY

In our first comparative study we compared the total family expenditures during the first three months of 1942 with the same families' expenditures during the first three months of 1941. We found that there had been an increase of slightly over 17 per cent in dollars spent. However, this analysis did not tell the full story, and we immediately compared, for the same families, total food expenditures of 1942 with those for 1941 and found them to be more than 26 per cent greater. Drug purchases, however, showed an increase of only about 8 per cent. The 26 per cent increase in amounts spent for food was only partially accounted for by increased prices, indicating either that more food was being purchased or that some hoarding was taking place.

SUGAR

Speaking of hoarding, sugar provides an excellent example of what really happened. In 1941, we had found that, for five months of the year, sugar consumption was almost the same each month—a pound a week per person. During the other months there was a steady rise through September with a slight decline in October. By figuring the increase above normal for the seven months, we found that the average farm family uses about 75 pounds a year for canning. After Pearl Harbor (in January, 1942) approximately 24 per cent of the families purchased extra sugar to an extent which brought the average for January, 1942, to a figure 14 per cent above that for January, 1941. We were interested, and pulled out the specific records. We found that the housewives made no bones at all about recording *as high as six* purchases from six stores in one day, each usually running between 10 and 25 pounds.

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About the end of January, a statement from Washington made it clear that, when rationing actually came, it would be necessary to declare all the sugar on hand. This statement was evidently taken very seriously, for the women who had been doing multiple purchasing during January stopped the practice almost entirely, and others reduced the number of purchases. Thus a drop of more than 9 per cent was recorded in the per capita poundage in February from the February, 1941, figures. And, while a complete stoppage of sugar buying did not occur in February to offset the January over-buying, this shows people will, in general, follow the directions given to them. Sugar is not a nationally advertised article, and the switches that took place were not so far-reaching as those we find for some other commodities, but it does have an indirect bearing on flour, which will be touched on later.

COFFEE

One of the most interesting studies we have made is in relation to coffee. Here we found a very normal picture for almost two years. The A. & P. regularly took 12 or 13 per cent of all purchases and 15 per cent or a little more of the tonnage. Purchases of Chase and Sanborn were affected by the company's effort to push glass containers. Maxwell House showed up very well in the medium- to high-grade coffee. Hills' Brothers' progress across the country was very marked, and Folger's dominated all brands in two of the geographic areas of the country, which gave it a higher ranking nationally in total poundage sold than might be expected.

The panel members, as would be expected, are broken into four economic groups, from A, the highest income group, to D, the lowest. The first noticeable change was an increase in the average price paid for coffee by Group D members. This did not appear in Group A at all, and not to the same extent in either of the other groups.

The second change was the increase in sales of vacuum-packed coffee. This was much more noticeable in certain areas of the country than in others; the West Coast, in particular, seemed less affected. It may have been that the least-affected areas were used to vacuum pack, while the others had clung to the loose variety. Naturally, there would not be so great an increase in vacuum-pack areas as in other areas, but the very fact of a sudden rise seemed to indicate that some hoarding was taking place.

Next an increase in purchases of such drinks as Postum, de-caffinated coffee, and soluble coffee was noted. It seemed as though people were aware that sooner or later there would be a shortage of coffee, and were starting to try out all the other drinks that might take its place.

This trend did not last very long and, of course, was not followed by the majority of coffee users. What happened next we all know—coffee shortage, voluntary rationing by stores, and finally actual rationing. During this whole period, the records have shown an absolute disregard of brands. People who have been confirmed users of one brand are now purchasing anything they can get—whether it is loose or packaged appears to make no difference. It seems

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that during a period of this sort, people are at first very much put out and hope for the day when they can again obtain their original brand. After a while, however, they are likely to find another brand which tastes just about as good, or they drink some new brand long enough to become accustomed to it.

Thus disruption such as we are going through is fraught with great danger to nationally advertised brands, unless they are wise enough to use it to convert as many customers as they lose and constantly try to re-sell their old customers as soon as they can be reached with the original brand again.

There are other dangers too, and we might as well face them. Substitute drinks are having the best forced sampling period that they have ever had. It is probable that many people will discover that they get along just as well and perhaps better, with these new drinks. This trend might even reach the point where coffee growers would find their product endangered by the rise of other drinks.

One bright spot, however, is the very rapid growth of soluble coffee, particularly NesCafe, which seems to have made strides far beyond those recorded for similar coffees. A product like soluble coffee seems to have all the characteristics necessary for successful introduction into our present living scheme. But think what the consequences may be! Manufacturing plants may be built in the coffee-growing countries and all processing done there. This would give work to many people in those countries, but would probably deprive many more in our country of work. After preparation, it is probable that as much of the concentrate as would correspond to a boat load of coffee in the bean could be carried by one of the new transport planes. Time of transportation would be cut; handling charges would go down; roasting would be eliminated; storage requirements would be very much reduced; and the product would certainly be easier for the housewife to use. But another American industry would be destroyed, for there would no longer be need for the old coffee pot, the percolator, or the glass type of coffee maker.

It is such embryo developments as soluble coffee that need close watching when the whole industry is in a state of flux, when brand loyalty is at low ebb, and consumer willingness to try any new brand is at its height, even though somewhat forced. We need to watch allied industries and all avenues of distribution and methods of transportation.

FLOUR

Turning now to another commodity in general use—flour—our records show that there has been a general falling off in purchases of the types requiring the use of sugar. The two most generally used are all-purpose and cake flour. There seems to be no falling off in pancake or waffle flours or in the ready-mixed flours which do not require sugar.

While the rationing of sugar is a large factor in the decline of flour sales, there are two others which should be considered: First, many women have entered industry and no longer have time for making all the bread, cakes, and

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pastries that they once prepared; second, farm women, who have been the largest users, have had to do more outside work to make up for the lack of ordinary farm labor.

To be sure, bread deliveries to the home have been cut to some extent, but so far it seems to be possible to obtain all the bread and baked goods necessary, either by wagon or at the store. The purchase of ready-baked bread has not declined on the farm; rather, it is showing a slight tendency to advance. If this situation continues, many former flour users will be converted permanently to the use of ready-made goods long before they can resume normal housekeeping.

Conditions of this kind, which exist in many industries, present a definite challenge to the manufacturers. In this case, there should be advertising stressing the idea that every loaf of bread, every biscuit, every cake and every cookie baked at home releases manpower for war purposes and makes a product ever so much more tasty for the hungry worker coming home. New recipes with less sugar, less butter, and fewer eggs should be developed by manufacturers, as they are in the farm kitchen and by farm publications. Flour is not on the restricted list yet, and could be promoted energetically to the profit of the whole flour industry.

Just a suggestion about the future. If the millers of the country are not going to go after the home market in an energetic way, it would seem, from the signs already apparent, that it would behoove them to find other products, such as plastics and rubber, to make out of their product and be ready to offer them to the public when this period is over.

CANNING

Shortly before war was declared, the tin situation appeared to be troublesome; and, by the time the canners met last January, it was evident that drastic steps would have to be taken to insure that only essential commodities were canned. Among the manufacturers upset were most of the canned soup makers. They have done an excellent job in readjusting their products and processes; but when we stop to analyze, we realize times like these offer that new fledgling—dehydrated soups—an opportunity to put on a spurt and become thoroughly entrenched in the market. Our figures for the first six months of 1942 show that already half as many farm families as regularly use canned soup are using dehydrated soup. From this it is easy to see the threat to the manufacturers who have for years been promoting the use of ready-made soups.

Apparently sensing the fact that the old-line manufacturers, even though their lines were depleted, would put new recipes on the market, the newcomers have conducted special drives and are making friends. They have many things in their favor, such as price, size of package for storage, quantity of product produced, ease of preparation, and in many cases a flavor as good as that of the canned ready-to-eat soups. Add to this, the fact that several favorably known manufacturers of other products are sponsoring the new dehydrated soups, and there is a troublesome problem for the canned soup manufacturers.

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True, there are problems for the dehydrated soups to overcome—packaging problems and the scarcity of varieties so far manufactured—but even so there could not be a better time for them to enter the market and convert the consumer.

CEREALS

Cereals might be mentioned at this time, but only because there has been no marked change in the amount being consumed. All changes seem to have been in the battle between the hot and cold types, with the cold cereals making advances against the hot group. To be sure, there have been new cereals introduced, both hot and cold, but these seem to have done little but produce shifts within the field. Of course, some cereals are making more progress than others, but it seems to be a matter of timely promotional themes rather than of fundamental changes in the industry. The public, at least, has not sensed any reason to be disturbed in any way; there has been no hoarding and little shifting except to try new brands.

SOAP

As to soap, we noticed a tendency toward heavy buying in 1941, but this seemed to pass without any other effects. Swan soap was introduced in that year, and without any promotion to the farm group, purchases were recorded four weeks after it was introduced in the purely urban markets. Its growth was very rapid; and, while Ivory was the main target, it was not by any means the only soap affected. Several manufacturers who did not realize the situation and, therefore, made little or no preparation seem to have lost as much as Ivory, which has done an excellent job in holding its market.

DENTIFRICES

Let us turn to a different field altogether and see what has taken place in the use of dentifrices. When tube shortages were first mentioned, there was a sudden rise in the use of liquid dentifrice, of which sales had been very erratic during 1940 and 1941. This showed up most clearly in January, February, and March, of 1942, as compared with the year before. After this there was a switch, almost as drastic, to powdered dentifrice, which had shown only a slight increase in the first three months. Paste forms of dentifrice held up fairly well during the first three months, but were very drastically hit by June and do not seem to have recovered. This corresponds very closely with the ruling on tubes by the Office of Price Administration, and seems to indicate that the public does not like the trouble of taking extra tubes to the store.

Here we see a case where the newest innovation, the liquid form of dentifrice, apparently has not risen to the occasion, even though it had an opportunity and its packaging, as well as other conditions, was entirely in its favor.

THE AUTOMOTIVE FIELD

In the automotive field there has been a decided change. Farmers, with more work to do than usual and fewer hired hands to help, have apparently

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stopped buying parts for self-installation. In ordinary times we should, under these conditions, expect to see the local garage jobs jump, and their purchases of parts increase. This, however, did not happen; instead the work went to the local implement dealer. It seems that these dealers, under the guidance of parent companies, sensed the changes that were taking place more quickly than did local garage men. The parent companies, anxious to keep their dealer organizations together, proposed plans for keeping all farm equipment in good working order, and it seems as though their salesmanship carried over in many cases to the family car and truck. This is an example of good planning and good salesmanship.

The illustrations cited cover but a few of the fields in which we have seen disruption taking place, although they are, perhaps, the fields in which the most violent changes have occurred so far. This account of them may leave the marketing man with a depressing feeling that:

1. Years of constant building have been destroyed.
2. Trademarks are being rapidly destroyed.
3. Prestige is being lost because old established formulas have been discarded and because smaller quantities (if any) of the old-line materials must be sold.
4. The damage may be permanent.
5. New goods are creeping in.
6. The public is very fickle.

HOPEFUL SIGNS

However, I feel just the opposite because:

1. Years of building cannot be destroyed if there are any brains and courage left in the organization to go out to battle prevailing conditions.
2. Trademarks will not be lost if proper promotional activities are maintained. Think of the newcomer and the road he must travel to reach the established manufacturer's position.
3. Prestige of a name, if it has been solidly built, will transcend shortages, changes in formulas, and all today's disruptions—unless the whole organization is permitted to fall into oblivion through lack of aggressive thinking and action. This is a time when the established manufacturer's prestige is so far ahead of that of the newcomer that the latter can never catch up unless the former lets his product and methods become obsolete.
4. The damage will not be permanent unless the manufacturer refuses to meet the challenge, unless he fails to keep his product up to date. He must subject his product to research continually, and also study consumer attitudes and demands.
5. New goods are creeping in and will continue to do so. The established manufacturer should have some new products himself. He was once

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able to meet all competition, and even though conditions are different today, he has had years of experience and should be able to meet it again.

6. The public *is* fickle, but the established manufacturer has always known that and built his business by promoting his product *continuously*, as well as *in a better way* than his competition. He can still do it.

However, I see more than all this before us, for our day-by-day records indicate that purchasing will increase and continue to increase as long as the consumer has *money*.

How long will he have money? Our economy today can be maintained only by keeping the national income near $120,000,000,000, for an income of that size is necessary to support the tax structure which we are building up. (The only other solution would be a repudiation of the whole debt, which does not seem likely to occur.) With such an income we shall actually require new commodities, and a healthy increase in the sale of all today's basically sound items will take place.

We do not need to face the future with anything but confidence, if we but stop to think about the developments already in view:

The new high-octane gas has made obsolete every automobile on the road today.

Our present production of aluminum is going to make that product appear in more places than it ever did before the war.

Our ability to make synthetic fibers will open up fields never dreamed of, while synthetic rubber and plastics will give us new things to wear and use.

Home building will be necessary, and many of the items mentioned above will be used in the new construction.

The airplane will transform transportation, and may, with proper planning, dominate world trade as shipping previously dominated it.

The farmer now has synthetic nitrates, and even the sea is producing iodine and other commodities in quantities far beyond what we could imagine just a short while ago.

Our big problem today is to find a method of keeping track of the changes as they take place, a method that will keep us constantly in touch with the public desires and demands so that we will not make the sort of mistakes that destroy a whole business. In times gone by, we could make mistakes and take time to correct them. Today we must know, for mistakes will be too costly to correct. As marketing men, we must discover the ways and means of forecasting changes as well as regular consumption. We must also have a method of checking on the reception of new ideas and new prices, and many other things. One such method we have used in our study; and, because of its flexibility and reliability, this method may reasonably be expected to answer these needs. However, if we as a group do not meet these new challenges,

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we shall be holding up normal progress—or, God forbid, manufacturers will find a new type of brain to take our places.

* * * * * *

Alvin E. Dodd (President, American Management Association): I shall call on Mr. Justin R. Weddell, assistant to the president of the Union Bag & Paper Corporation, to speak on British experience in this matter.

Mr. Weddell: The British were at first just as unwilling to bend their necks to government requirements as we in this country have been. But all that changed, of course, at the time of Dunkirk. Really drastic rationing rules were enacted; and the public of England, willingly and without further complaints, accepted the bitter pill.

The results have not been bad. Today consumption of the fundamental foods is down to what we should call a very low level; but, as we have all read, the health of the population is better than it was when people could eat all the butter they wanted, all the candy they wanted, all the meat they liked. In other words, the actual impact of rationing has done England's health no harm, and it has introduced new cleaner and better eating and living habits.

Although I was in England during the first 13 months of the war and until after the bombing of London, I have been away for some time. My experience, therefore, is not recent enough for me to speak authoritatively on conditions today. However, in those first 13 months—which, we may say, paralleled to some extent the times which we are now going through in this country—our way of living was changed abruptly.

For instance, we came down to about 35 cents' worth of meat a week per person. That seems like a very small amount, but in a family of five or six we would pool our ration cards and have a Sunday joint—which is a good old British custom anyway. Then that joint would reappear as cold meat on Monday, as hash on Tuesday and Wednesday, as renderings for gravies, etc., on Thursday, Friday, and Saturday, thus lasting until the next Sunday came around.

Then there were unrationed meats: cured meats, cured ham, the cured variety of tongue. And people learned the value of canned goods—or "tinned goods" as they are called in England. The latter had not been very popular before the war, for the English had a strange and erroneous idea that it was bad for food to put it in a tin can. When rationing came into effect and people learned the value and virtues of food in tins, the change in eating habits practically introduced a new industry. But, unfortunately, tinned foods later became as scarce as they now are in this country, and today they are rationed very tightly.

It is interesting to study the tabulation of "Basic Food Rationing in Britain" (the word "basic" is applied by the Ministry of Foods to foods necessary to sustain life) in the pamphlet *Rationing of Food in Great Britain*, issued by the British Information Service. For instance, despite the damp English climate, in which people probably need more in the way of butter fat and other heat-

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producing foods than we do, the ration is only eight ounces a week of butter, margarine, and cooking fats. Margarine was always widely used in England, and now it has become the common spread in the palace and the castle and in the clubs in Piccadilly. And nobody objected after discovering how easily it could be substituted for butter. I think we in this country can learn that it is excellent spread, which will, if properly made, be happily accepted by everyone.

Then, the English get eight ounces of sugar and four ounces of ham and bacon. That last was hard because bacon was almost as essential to an Englishman as his tea. And not only that, the tea ration was set at only two ounces per person.

The tea rationing, I gather from letters from friends over there, is the hardest of all. Tea to the Englishman is food and drink. It is used instead of liquor, instead of a meal, as a nightcap. The man coming out of the mines or the worker coming from the night shift will have tea before he goes to sleep. People tried to use coffee as a substitute, but they did not know how to make it properly at first. Now, I learn, they have discovered that coffee, so long as it tastes like coffee, is pretty good when there is nothing else obtainable. To tell the truth, however, there is no substitute for tea, so far as the English are concerned.

Cheese rationing was also very hard on the British public. In England cheese is a diet staple served at practically every meal, even for breakfast in some homes. Now each person is allowed only eight ounces a week.

Thus we can see how greatly consumption of basic articles of food can be reduced without upsetting the economy or injuring the health, morale, or vigor of the people. Reluctantly probably, but inevitably, we shall have to change the eating habits of this country. And whether we are able to do so or not will probably depend not so much on our patriotism but on how good a rationing system is devised.

One particular point should be remembered. England has a homogeneous population, far more used to government regulations than we are; moreover, the population was temperamentally prepared because the seriousness of the situation was so evident. Nevertheless, the government adopted price control along with rationing, and did not neglect to educate the public on the necessity for the controls.

Retail sales prices cannot be controlled unless those of the wholesaler and the grower are controlled also. Through subsidies England has been able to hold retail prices to a low level and keep up the manufacturing, growing, processing, and importation of essential food. That subsidy system, costs a good many million pounds.

The wholesaler was a serious point of difficulty. Meat wholesalers, at least, have been replaced with a government institution. In Manchester for instance, where I believe there were some 150 meat wholesalers before the war, there is just one today, and that is a government-controlled institution. Government control on that level, of course, completely kills the black market.

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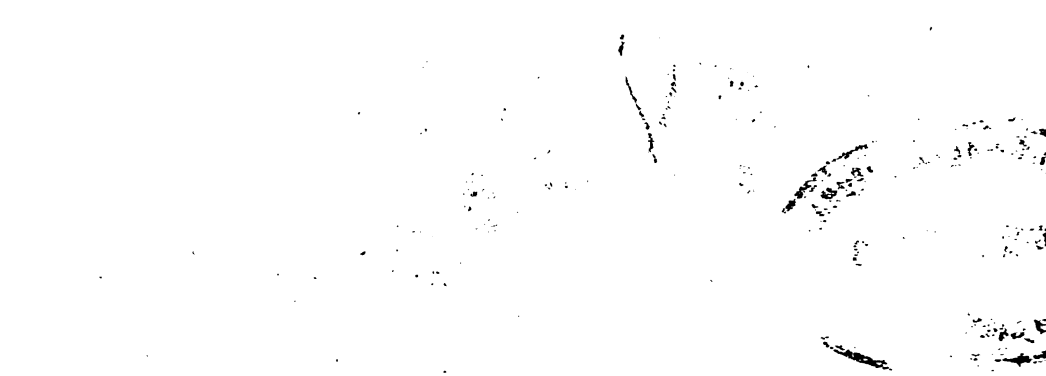

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MAINTAINING A SALES ORGANIZATION

By WILLIAM R. MOORE
General Sales Manager
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HOW often in the past year or two have we heard executives say: "Why should we maintain a sales department? There is nothing to sell. Our plant is at capacity, and demand for our products is far beyond our ability to supply." Such questions imply that a sales department is unnecessary today and, consequently, that it may be considered a liability in nearly every case—whether the company is producing 100 per cent war material, part war and part civilian material or all civilian goods.

It is difficult for executives of other divisions to appreciate the problems of a sales manager and a sales department. Sales plans and sales expense seem abstract and less than essential when next month's production is not dependent upon them. But what, after all, is foremost in the minds of American management today? Is it not the determination to do everything possible to help those in the active service of our country and our allies to win this war and establish a lasting peace? If this is true, why should the sales department be denied its part, irrespective of its changed functions?

Sales leadership and right sales thinking and planning, dimmed as their importance appears under the impact of war, are living, present needs today but with wholly new purposes and aims. The record of sales management's contribution to this war is already outstanding, but more—vastly more—is yet to be accomplished before victory is achieved. Planning and working for the triumph of America and its allies are not the sales department's only tasks; it must plan and work also for the new world after victory. A sales organization

THE AUTHOR W. R. Moore was graduated from Penn State College in 1914 in electro-chemical engineering and joined the Norton Company in the fall of the same year. After taking an 18-month sales training course, during which he spent some time in practically every department of the company, he was assigned to the sales engineering department.

During World War I, Mr. Moore enlisted in the Ordnance Department and later was transferred into the Field Artillery where he received a commission and spent about a year and a half in the service. Since his return to the Norton Company, he has held the positions of: assistant sales engineer; sales engineer; assistant sales manager, Abrasive Division; director of market research; and sales manager, Abrasive Division. He has been general sales manager of the Abrasive Division for the past four years.

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should serve as a guide for American management in the urgent work that confronts it today and in the reconstruction days ahead.

PROBLEMS OF SALES MANAGEMENT

Sales management in wartime is immediately confronted with many problems. It must reclassify its personnel and reassign them to wartime duties: possibly it must substitute women for men in some positions. Often, too, it must rearrange the compensation plan. It must take measures to maintain the morale of the sales force. And at the same time it must plan and develop sales methods for the postwar world.

While with but few exceptions the duties and responsibilities of the sales organization have changed, one of its most important responsibilities remains. and will remain as long as the company stays in business—the responsibility for maintaining good will and a reputation for the highest type of service. whether in the form of engineering, delivery, or educational service, and regardless of existing conditions.

Good will can cease to be important only when the company ceases to exist. It makes no difference whether the times are abnormal, normal or subnormal. we in the sales departments have a chance each day to act as ambassadors of good will for our companies. Very often it is the small things that affect the relations with our customers. A hastily written letter or telegram or an adjustment, deferment or cancellation tactlessly handled may well endanger our future business. An unkept delivery promise puts the sales department on the spot. and the delivery of a small order is just as important to a customer as the delivery of a large one. Do not all these important functions warrant the maintenance of a sales personnel today?

True, the extent to which a sales organization must be maintained for strictly sales work depends upon several factors, such as:

a. The nature of the product—technical or non-technical.
b. The extent of the changeover from civilian to war products.
c. The company's ability to keep production of standard products ahead of demand.
d. The type of war orders and contracts.
e. The company's ability to obtain priority for sufficient material for the manufacture of war or civilian products.

The fact that many of the usual functions of a sales organization disappear in an abnormal period, such as the present, is not sufficient reason for disbanding and releasing sales personnel. Competition and sales promotion may become of secondary importance as an industry or an individual company approaches capacity in the manufacture of standard products for war use; that is no excuse for discontinuing engineering or service calls. Especially is this true if the product is of a technical nature and the outside sales personnel is made up of well-trained engineers.

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What an opportunity our sales engineers and service men have today to promote good will by helping our production departments help our customers help the United Nations win this war! Naturally, as a company reaches capacity on a standard product, the sales department may be slightly confused. Good salesmen are not good apologists. They have been trained to be aggressive and to work for a specific objective, which means that a sales force without an objective will become soft and ineffective. Sales managers know this only too well, and they know also that it will take years to replace this aggressive spirit once it is lost.

WARTIME FUNCTIONS

Let us then define some of the functions of the sales department in wartime. It must:

1. Service orders promptly.
2. Recommend the best product for a given operation.
3. Be helpful to customers by relaying information to the production line.
4. Make sure delivery promises are kept—to old customers as well as to new.
5. Establish the usefulness of the company's research and technical experts.
6. Assist the advertising manager and his department to introduce and distribute their information and technical literature to the Army, the Navy, the aircraft industry and others where job training is necessary to meet the manpower shortage.
7. Assist in the immediate correction of all manufacturing mistakes and misshipments.
8. Report errors to the home office in such a way that recurrences will be prevented.
9. Cultivate markets and customers that will be profitable in peacetime.
10. Last but not least, help to create an enviable reputation for the future.

Assuming that a company's product is of a technical nature and service is paramount in wartime, why not immediately remove one handicap from the outside men by calling them "service engineers" or "field engineers"? If possible, their functions should be defined by the product they are servicing; for instance, they may be called "electrical engineers," "chemical engineers" or "abrasive engineers." The function of salesmen today is misunderstood not only by customers but many of the local draft boards throughout the country. Most draft boards are composed of intelligent personnel, but many of their members would actually experience difficulty if required to sell hacksaws in a jail. The salesman appears as useless to them as a Democrat in Vermont.

Similarly, many ration boards are made up of persons who do not or cannot understand the need for any kind of sales work today, whether it is promotional, educational, engineering or service work. These conditions all tend to make it very difficult to retain our young field engineers who are doing

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extremely valuable and essential war work, and tend also to prevent them from obtaining sufficient gasoline and rubber to perform their work efficiently. Therefore it is suggested that the word "service" be substituted, under present conditions, for the word "sales" and that the word "salesman" be replaced by the word "engineer."

This first step will give the outside salesmen easier entrée into plants where their experience and advice can be used to the mutual advantage of all. It will also enable them to perform most efficiently a number of the sales functions just mentioned. And once the value of the engineers is established with the local draft boards and with the customers, the problem of obtaining sufficient gas and rubber for their maintenance is simplified.

This suggestion, however, should not be misunderstood or misinterpreted. It should be acted upon only by companies which are manufacturing highly technical products on which engineering advice and service are essential. At no time should a change in title be used as a camouflage in an attempt to retain sales personnel or to obtain gasoline and rubber so vitally needed for our Army and Navy.

CONVERTING SALESMEN

During this abnormal period, many companies which have been forced to discontinue manufacture of their standard products have been faced with the problem of either releasing their salesmen or finding other work for them. Statistics today indicate that approximately 50 per cent of the salesmen of all industries are still covering their territories; 10 per cent are in the armed forces. and there is a possibility that 25 per cent will be taken before the war ends; 15 per cent have been released; and 25 per cent converted to other work.

In carrying out a conversion program, the first step is to analyze the qualifications of the sales force. If a company has changed over from civilian products to war products, some of the sales personnel can be retained for service or maintenance work. The sales ability of many of the others can still be used in selling the importance of the company's war work to suppliers. Salesmen can help the purchasing department chase supplies and equipment, and if subcontractors are needed, salesmen can help to find those with equipment suitable for the work. In the home office, they can be used as expediters and on scheduling and planning work. If this program is feasible, the salesmen, although converted to entirely different work, can be retained for the postwar period when their past experience will again prove invaluable.

Good supervisors and instructors of new help are scarce. I strongly recommend giving men called from the field the first course in "Job Instructor Training." This is a 10-hour free course offered by the Training Within Industry Division of the War Manpower Commission. I have yet to find any one who has not been extremely enthusiastic over the results accomplished. The course is not theoretical—it is practical.

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Postwar prosperity will be in direct proportion to speed of reconversion. Assuming that this war may last another year and a half to two years, field engineers should be brought together periodically and apprised of all known current changes in production methods in different industries; they should be told of the new products their former customers may be planning and of the new products and new plans being developed by their own company. All this will serve to keep up salesmen's morale and promote a feeling of unity in the sales organization.

Men in sales field work should be permitted, too, to inform men in other duration jobs about current changes. We must all recognize that the future success of our private enterprise system depends almost wholly on the speed of reconversion immediately after the war. If the changeover back to peacetime products is to be accomplished quickly, it will require men who have thought out the problems before the time for action arrives. Why not consider some of the best salesmen or field engineers for membership on the postwar planning committee? Customers will need conversion help and advice. Is there any better method of developing good will and assuring the company of postwar markets than providing it? Furthermore, a plan of this kind will emphasize the fact that private industry is capable of doing a real postwar planning job in the field where our government cannot easily operate and, *we hope*, does not wish to operate unless private industry fails.

Then, again, some companies that have been obliged to withdraw their salesmen from the field have taken this opportunity to give them extensive sales training. Time for such work is available today, while there may be no time for it in the postwar period. We are reminded of Donald Nelson's slogan when he moved to Washington in 1940: "A year from now what will we wish we had done today?"

An efficient, alert and effective sales organization today is a possession indefinable in value. My recommendation is that it be kept in form, not only to win this war but to perform indispensable service in the postwar period. This is a real challenge to sales management—yes, to American management.

COMPENSATION PROBLEMS

Another important problem confronting sales management during this abnormal period is the problem of morale, which is unquestionably tied in with that of compensation. All changes in drawing accounts, straight commissions, salaries and incentives, or straight salaries must, of course, be viewed in the light of stabilization regulations.

However, no matter what system the company has been using, salesmen's increases should at least be comparable with increased cost of living. A salesman should now be a happy combination of seller and engineer. If he is underpaid, his morale is broken. If he is overpaid, he is spoiled not only for his present organization but for other companies. In times like these actual

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sales functions disappear, and unhappy salesmen, service men or engineers lose their enthusiasm. Also, good men are scarce, and other companies are continually trying to amplify their field staffs. If the firm has a well-trained organization, then it has a large and important investment to protect. For that reason alone, the problem of compensation must be given careful consideration.

There has always been a question in my mind as to whether there is any ideal form of compensation that will withstand the test of changing business conditions without some sliding scale of adjustment. A man on a straight commission experiences either a feast or a famine. If he once experiences a feast without any form of adjustment, his usefulness and morale, nine times out of 10, are ruined for the normal or subnormal period. On the other hand, if he is not allowed to profit by a rising volume of business, he will become demoralized to the point where his services will be valueless.

A compensation plan which embodies a base salary and some form of individual and group incentive that lends itself to adjustment should prove most satisfactory. Such a plan should include a base and peak expense, with an arrangement whereby the salesman or service engineer can earn a small additional compensation if he keeps within the allowable limits.

The individual part of the compensation can be earned from a base salary fixed at base sales for a given territory at some past average—for example the average of 1937, 1938 and 1939—or some fixed period, such as 1932. The individual part of the peak salary can likewise be fixed at some peak sales volume for the territory—for example, 10 or 15 per cent beyond 1929 sales.

The base expense at base sales for the individual territory can be set at a fixed figure and pegged for peak sales at 30 per cent above base. When the territory sales are half way between base and peak the individual will be allowed an annual average expense. A proportionate part of the allowable expense saved can be given to the individual as additional compensation.

If expense for an individual territory has been liberally set, it should be definitely pegged at peak sales. There should be no objection to small earnings for saved expense because the real incentive earnings should come from increased sales.

For a normal period of business this plan of compensation has worked very satisfactorily. However, a form of adjustment which will tend to bring about some semblance of equality for the entire outside sales staff must be arranged. Sales of certain territories may reach a volume far beyond peak, while others are retarded. Both effects will be due entirely to subnormal conditions, and the individual will not be responsible.

For example: At the start of this war the pendulum of war production swung toward the east and many eastern territory sales approached the peak months before the pendulum started on its western swing. New war plants sprang up almost over night in some territories, while in others plants manu-

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facturing civilian goods were forced either to curtail activities or to go through the process of conversion. In the meantime, many companies' sales reached total peak and continued with a steadily rising volume.

If a satisfactory compensation plan, regardless of the form, was in effect during 1939 and 1940, adjustment was necessary in very few instances. But in 1941, some equitable plan of adjustment seemed to be in order. The extent of change necessary depended largely on the plan in effect and the distribution of total volume sales increase.

The best change to make is one which will allow the retention of the original plan. If the field personnel was compensated entirely on a commission basis, satisfactory results can still be attained under that system, provided the plan embodies a sharply descending scale to cover artificially stimulated business. Where it does not, the compensation goes up entirely too rapidly and immediately presents a difficult problem of adjustment.

A plan that appears to work fairly well for the salary and individual-territory incentive program is one in which each man's individual compensation standards are pegged at peak average sales for his territory. This payment can be considered "Range A," and from that point on the entire outside group can be placed on an additional incentive program known as "Range B" in which *each* man can be assigned an earning rate per $1,000 of company sales beyond company peak sales from all territories. The rate per $1,000 will, of course, be different for each man since it will be based on his past earning rate for his own territory and also on his base salary, experience and length of service with the company.

I have known of some instances where all forms of compensation, including commission plan, base salary and incentive or bonus plans, have been discontinued for the duration and all sales personnel put on a straight salary basis. Such a program, I feel, is inadvisable unless it is deemed absolutely necessary because it takes away all individual incentive.

What I have said about compensation up to now pertains largely to companies which have been able to hold their sales personnel intact and keep it in the field on service and engineering work. Satisfactory compensation plans, however, can be arranged also for cases in which the personnel has been withdrawn from the field and placed on inside engineering, manufacturing or expediting work. A program of that type should be adopted wherever possible in order to maintain the morale of the salesman and retain him in the organization for his invaluable sales service in the future.

WOMEN AS SALESMEN

A great deal of study and thought has been given to the problem of replacing men with women. Many industries report surprisingly favorable experience. The success of women in industry seems rather to depend upon the degree to which characteristic physical, mental, social, economic and emo-

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tional similarities and differences among men and women are taken into consideration.

However, to predict how far we can go in replacing men with women in outside sales contact work is difficult. I fully believe the extent of their usefulness will depend largely on the nature of the product, on whether it is for industrial or consumer use and on whether it is of a technical or non-technical nature.

There is no question but that women can be trained to sell many classes of non-technical consumer goods. They can be used, in many instances, to replace men in the sales organizations of the home offices or field offices and warehouses, and their work in some cases may be better than that of the men they replace. However, I seriously question their ability to do the work of highly specialized sales and service engineers.

One thing is certain, however: Some long established sales customs will have to be abandoned if women are employed—unless women take men's places in the purchasing fraternity as well. For example: It is just a little difficult to conceive of an attractive saleswoman's taking some handsome purchasing agent out for dinner and a boxing match at her expense—especially if he should happen to be a married man and to consider it necessary to explain to his wife —or would he?

With the birth of our country the real age of business and commerce was born. It was no mere mercenary age, but an era of unprecedented and undreamed-of advantages. Let us, then, consider this war as an interruption to our work of raising the world's standard of living, and let us keep in mind that the sooner this interruption is ended, the sooner we can all get back to the work for which each one of us is best qualified. So I say: Let's all buckle down and get the job done. We still have a war to fight—our first and only task is to win it. Let us not forget that in winning we must not only save all that we once had; we must open the way to a future so bright that all industry will have a part in the reconstruction for a lasting peace.

To think of lowered standards of living after the war is to deny American ideals and ambitions—to doubt American invention and ingenuity and American management standards. To let Americans believe that standards will be lowered is to permit them to lose faith in American industry, which has created the highest standards in the world and which alone can and will maintain and improve them still further when victory comes.

A well-trained, well-balanced, efficient sales organization will be most essential in the future. Every effort should be made to maintain it today.

* * * * * *

Chairman J. H. MacLeod (Vice President, Sales Division, The Hinde & Dauch Paper Company, Sandusky, Ohio; and Vice President, AMA, in Charge

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of Industrial Marketing): I was particularly interested in Mr. Moore's discussion of new titles for salesmen. About 15 years ago, Henry Squire, then our advertising manager, created the title "package engineer" for us, because he believed that the ordinary shipping box was a thing of the past. Since that time we have made great progress in package engineering, and certainly during this war the government has developed a number of engineering jobs for the boxmakers of the country.

Conferee: Speaking of women as technical salesmen, I know of two who are young and attractive. One sells mining machinery and the other is in the electrical manufacturing field, and they are both very successful.

My own company is hiring many more women college graduates for inside sales work than we did in the past, and some of them are working on technical material. As the training period is necessarily short, they handle just one type of product, particularly in the general office, where prices are given out to the district offices.

In the field, we have employed women who started as secretaries or stenographers and so became familiar with the technical terms over a period of years. Some of them can figure out prices on equipment many times better than the men can. They are also very good at giving telephone service.

Question: Mr. Moore stated that good salesmen are not good apologists for company policies. With drastic changes being made now in so many company policies, it seems to me that a good salesman is definitely needed to explain them. Perhaps Mr. Moore would like to amplify his remarks a bit.

Mr. Moore: I agree that a salesman faces many problems when he visits a plant badly in need of products which have been promised and not delivered. He has to back up his home organization, of course.

However, salesmen have been taught to sell. Now they have to turn around and give service without trying to sell.

For example, in our own organization, our men are told to stay away from competitive items which are well established in a plant. That is new to them—entirely new. They do not always know how to act under these conditions. They still make calls, but they may have to apologize for being there when they have nothing to sell.

I know I go around at times with our men and make calls on some large companies. The purchasing agent may wonder: "Well, why are you here, Mr. Moore? You have nothing to sell." The real purpose of my call is to see if our service is satisfactory, if we are taking care of the customer in the right way.

True, we haven't much to sell today; we are practically up to capacity. That is what I mean by the statement that a salesman is not a good apologist when he has nothing to sell. He is required to exercise a different selling technique.

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MAINTAINING DEALER RELATIONS IN WAR AND PEACE

By ARTHUR A. HOOD
Director of Dealer Relations
Johns-Manville Sales Corporation
New York, N. Y.

IF a dealer is correctly defined as "the owner or manager of an effective merchandising and service structure at the point of sale to the consumer," he is probably the most important factor in the chain of distribution between the factory doors and the ultimate consumer. We in the building industry believe this to be true; but, paradoxically, until a few years ago the building industry possessed no dealers who met that definition. The factor at the point of sale to the consumer was generally the carpenter-contractor, who customarily had no facilities or background for warehousing, display, advertising, promotion or creative sales work. Construction was bought by, rather than sold to, the consumer, as anyone who built a home in those days will remember. The carpenter-contractor was further handicapped by the lack of mechanical facilities, other than hand tools, by inefficient subcontractors, by uncoordinated fabricating and assembly procedures, by inaccurate estimating and specification writing, and by half-capacity operation, labor union restrictions, archaic codes and day labor competition, which put a premium on inefficient workmanship and unscrupulous practices.

And yet until the end of the '20's, because of the continuous growth and expansion of the country, the building industry had not felt the need of an adequate retailer. Then the great depression crystallized the demand for a consumer-selling and -servicing dealer in the industry, and simultaneously the subject of dealer relations became increasingly important to building industry manufacturers.

Johns-Manville was one of the first manufacturers to recognize the new conditions. Since 1932, this company has been engaged in a dealer-development program which has continued in peace and war and will continue in the

THE AUTHOR Arthur A. Hood started as a part-time bookkeeper in his father's lumber yard at the age of 13, and in 35 years in the building industry has acquired a thorough knowledge of retailing, wholesaling, and manufacturing problems, and of association work in the field.

Mr. Hood developed a National Housing Guild System of package selling in the building industry and for the past 10 years has conducted management-training schools for some 3,000 Johns-Manville dealers.

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coming peace until the building industry has a sufficient number of effective retailers to serve American consumers adequately.

THE IDEAL DEALER

Perhaps we should paint a picture of this ideal dealer we are attempting to develop—a picture that may become reality in the early '50's. His organization will embrace:

A department store of building and housing services.

A centralized inventory of all products serving the housing market.

Facilities for a scientific determination of turnover in each classification of items.

A staff architect with assistants in an architectural department. (Potential employment for thousands of qualified architects in this field.)

A construction superintendent, with assistants, operating a contract department. (Potential employment for thousands of contractors here.)

A real estate department servicing lots, rentals and "trade-ins."

An insurance department providing all types of housing and construction insurance.

A branch of a real estate loaning agency or building and loan depository.

A counter merchandise division with hundreds of housing appliance items and "impulse" items offered to the shopper.

An inventory of new homes for sale in various price brackets in demand locally.

A "line" of prefabricated and partially fabricated buildings.

A "labor" sales department to meet the demand when the primary call is for mechanics.

An organized and loyal industry service group not on the payroll but feeding on the labor sales made by the company.

An industrial materials department.

A materials department servicing the heavy construction trade.

Ample sales personnel to cover all markets and their potentialities.

Advertising and promotional personnel adequate to back up the sales organization.

A custom-built new home sales division.

A structural improvement sales division. (In the future we shall no more be able to divorce structural service from new home sales than automobile service from new automobile sales.)

A farm sales division.

A fuel sales and fuel equipment department.

Specialty departments, handling insulation, plumbing, heating, paint, electrical work, millwork, flooring, sheet metal, hardware, etc.

The primary management emphasis and predominent executive pressure will be on maximum sales volume. When this volume is achieved, the organization will have exceptional buying power, widespread control of building trades employment, very low overhead costs per dollar of sales, full cooperation from the best manufacturers, important reciprocity leverages and a definite position of economic advantage over any less efficient competitor.

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Departments will be on a self-sustaining basis; all sales on an incentive compensation plan; and department heads will be held accountable for definite quotas of sales and gross profits. Moreover each department will be backed by a scientifically determined advertising appropriation and a promotional plan.

Specialty salesmen will be trained for a single departmental field but may be switched seasonally to supply seasonal demand and to maintain year 'round employment of all personnel. Building mechanics will be employed on an annual wage basis, and when not doing construction work on outside jobs sold by the company, will be assigned to shop work in the fabrication and assembly department.

The goal of the organization will be to become so efficient that consumer prices of building packages and materials will be periodically reduced. And because of the varied housing and impulse merchandise effectively displayed and promoted, consumer traffic to the establishment will be second only to that to the local department store or super food market.

Summarizing: This effective dealer of tomorrow will integrate into consumer service "packages" the elements of land, materials, labor, design, finance, equipment and utilities; and he will adequately promote and service the local sales.

This dream has taken on some of the aspects of reality since it was first envisioned 10 years ago. Ten years of intensive dealer relations activities have brought us a long way on the road to the goal; and fortunately, the war has accelerated rather than slowed up the process of evolution. I shall touch only upon the highlights of eight years of peacetime effort in dealer development, because the impact of wartime conditions on the structure is of more interest today.

Ten years ago it was our company's good fortune to have several thousand able and well-financed distributors-to-the-carpenter-contractors of J-M products upon which to build. The advanced type of dealer has usually been developed from this one source, although a number of exceptionally able realtors and contractors have become modern building industry package merchants.

The problem was largely educational! Some 21 textbooks containing a million and a half words on building industry retailing were developed by the J-M dealer relations department. They covered such fields as estimating, construction practices, mortgage financing, market analysis, salesmanship, sales management, general management techniques, specification writing, home building, farm construction, structural improvements, repairs and maintenance, instalment selling, costing and many others.

Thirty-five national management schools were held, in which 3,000 executives of 2,600 distributing companies were trained. Hundreds of schools for consumer salesmen were conducted, and more than 10,000 men and women were trained in the creative selling of building packages to the consumer—trained in a system of packaging, financing and trademarking of homes, farm

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buildings and other types of construction jobs salable to the consumer. The whole project was backed with a national advertising campaign.

The scope of this program is indicated by the fact that a teaching staff of 17 and more than a freight car of equipment were used in the dealer management schools. The result, as we entered the '40's, was a group of some 700 dealers who had begun to approximate the ideal projected for the future. Naturally, these are our best dealers today.

CAME THE WAR

The principal effect of the war on this program was to curtail radically our material supply to our dealers. At times during the past two years as much as 80 per cent of our building material production has been diverted to war purposes, which of necessity by-passed the dealer channel of distribution.

Next we had the familiar problem of lost manpower at headquarters, in district offices, and most seriously in our sales organization. We were hit hard not only by the loss of our own manpower but by the loss of dealer personnel and the migration of construction labor as well.

However, even in wartime several factors continued to favor the progress of our long-swing dealer development policy. Building industry dealers are, as a practical matter, essential to the war program. The dealer role is a vital one, not only in supplying war construction locally, but in meeting the need for farm construction and structural repairs and maintenance. Adequate buildings are a part of full agricultural production, and sound structures will keep workers in good health and machinery and goods in proper condition.

Moreover, the inadequate supply of local construction labor, coupled with a shortage of all kinds of building materials, has forced the dealers into the operating pattern we have been fostering. By integrating labor with materials in a construction package and then selling, billing and servicing the packaged unit, the dealer doubles his sales and increases his profits proportionately. (Labor is usually 50 per cent of the dollar value of a small construction package, and it costs no more to sell labor and materials to the consumer than to sell either by itself.)

Another point here: The American farmer's traditional practice of putting up his own buildings is apparently gone for good. Like the city man, he now demands "package" construction service. He has found that he can spend his time more profitably in food production than in amateur construction.

WARTIME DEALER RELATIONS

All this pointed to a philosophy of wartime dealer relations that was quite simple—it could be built around two principles:

1. That we must assure the survival of a maximum number of our dealers.
2. That we must continue to make effective construction package merchants of our dealers.

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Right after Pearl Harbor our wartime dealer relations program and policies took form. We gave first place, of course, to the war effort—and winning the war has never ceased to be our first consideration! Second, we placed dealer survival, not entirely from selfish motives but because the postwar world will require, above all, an efficiently functioning building industry to provide full employment, and a functioning building industry requires adequate retailing. We determined that the condition of survival was operating at a profit and that out of the crucible of the war we would, if possible, develop a stronger if leaner dealer!

All dealer relations strategy and tactics will conform to these two principles for the duration. While there is not space here to detail all the various steps we have taken, I shall try to cover some of the most important things we have done in terms of constructive results. We used some techniques similar to those employed in other industries and some which were entirely different.

For example: The automotive industry, unable to sell new vehicles, concentrated on the sale of service. Similarly the building industry, deprived of new construction sales, urged a repair and maintenance program on its dealers.

Other industries, like the tire industry, have been forced to secure new and unfamiliar items of merchandise for their dealers—even including items that rightfully belong on a building industry dealer's shelves. In part one tire company's retail catalogue today contains more than 600 items not previously merchandised by tire dealers, 80 of which are in the field of home building and servicing.

Our task in contrast was easier. We did not have to go outside the building industry for new lines of merchandise because no building industry dealer was carrying the full line of building industry products and services—we still had the hardware store, the plumbing establishment, the electrical store and the heating shop as well as the building material dealer. Thus our efforts have been directed at expanding our dealer's merchandising into fields that industry-wise are rightfully his, and this policy again tends to speed up progress toward our long-swing objective.

Our next most important policy was to use the familiar technique of uncovering success patterns and multiplying them throughout our dealer structure. To be successful retailing in wartime requires exceptional flexibility, imagination, opportunism, ingenuity and resourcefulness. Our field staff was instructed to report every instance of the application of these qualities by dealers in a manner that could be used by others. Several score of practical profit-making innovations were uncovered and passed on to all Johns-Manville dealers.

ONE-DAY CLINICS

Recognizing the need for a mass educational vehicle for rapid dissemination of the details of wartime management of retailing, a year ago we hit upon

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regional one-day clinics of dealer management. A large number of these clinics were held, concentrated in districts outside of war industrial areas where the dealers were in greatest need of help.

In 1942 we called these dealer sessions "net profit clinics." Our keynote was, "It is a patriotic duty for a retailer to operate at a profit on the home front while delivering his full part to the war effort." While the meetings were not "pep sessions," they were designed to be highly inspirational in a practical sense—every "what" was accompanied by a "how."

A special management-training instrument called "A Net Profit Guide and Operating Manual for Retail Executives" was prepared as a textbook for these meetings, and every retail executive and Johns-Manville field representative present was given a copy. This book contains the 583 most successful and profitable operating policies for a building industry dealer, departmentalized in the 10 major operating divisions of a retail business. And with each policy is given a detailed management technique for putting it into effective operation. The book's table of contents follows:

THE TEN BASIC ELEMENTS OF NET PROFIT

I. Establishing Economic Volume and Profit Objectives; Functional Organization Chart; Organization Charts of My Company; Sales Volume Quotas; Net Profit Quotas

II. Having the Right Things to Sell: General Merchandise Lines; Johns-Manville Line

III. Effective Organization of Facilities, Equipment and Operating Personnel: The Machinery of a One-Stop Service Station for the Building Industry; Getting the Most from Operating Manpower

IV. Controlling Costs, Expenses and the Flow of Money: Securing Maximum Profit from a Complete Understanding of Costs; Securing the Net Profit Benefits in Uniform Accounting Comparisons; Securing Added Net Profits and Preventing Losses Through Budgetary Control; Controlling the Flow of Money; Avoiding Losses and Building Goodwill Through the Efficient Handling of Claims and Adjustments

V. Pricing for Adequate and Controlled Profit Margins

VI. Securing Profits from the Sale of Money and Credit: Adequate Facilities for and Use of Financing in Home Improvement Sales; Adequate Facilities for and Use of Financing in New Home Sales; Adequate Facilities for and Use of Financing in Farm Sales; Capitalizing on the Use of Credit and Instalment Selling in Miscellaneous Fields

VII. Building and Maintaining an Efficient Sales Organization: Selecting, Hiring and Compensating the Right Number of the Right Men; Properly Equipping and Thoroughly Training the Salesmen; Operating Salesmen for Maximum Results

VIII. Fully Capitalizing Every Market Opportunity: Getting the Most from the Home Improvement Market; Getting the Most from the New Home Market; Getting the Most from the Farm Market; Getting the Most from the Commercial Structures Improvement Market; Getting the Most from the Miscellaneous Markets

IX. Organizing the Profitable Production and Delivery of Building Packages, Products and Services: Organizing and Training the "Factory" Crew; Operating the "Factory" at Maximum Efficiency

X. Creative Thinking When Faced with Emergencies and Obstacles to Profit: Unseasonal Declines in Sales Volume; Shrinkage in Gross Margins; Miscellaneous Emergencies

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Naturally, in a one-day clinic we could not cover several hundred policies; so we selected the 100 most vital to wartime service and to profits and covered them one at a time during the day. Our method was to ask the dealers present to indicate by a showing of hands how many were currently applying the specific policy under discussion. Where a majority present were applying it, we considered that sufficient evidence to convince everyone present that the policy was sound and, unless questioned, went on to the next one. Where the votes were evenly divided or only a minority were currently applying a recommended policy, we stopped for a discussion and asked dealers present to tell in their own words the "how" and the results of applying that policy. Thus we spent the longest periods of discussion in fortifying the most prevalent weak spots in dealer practice. At the close of each of these clinics, dealers told us it had been the most helpful day they had had with us in 10 years of dealer relations efforts.

Another important item in keeping our dealers alive in wartime was our dealer house organ called "The Guild Spokesman," published every 60 days. Several incentive programs that we had started in peacetime were intensified. Even more executive thought and effort has gone into this instrument in wartime than before.

CONSUMER EDUCATION

Throughout the war period we have emphasized to the dealers the need for consumer education on what the dealer has available for sale in terms both of merchandise and building industry services. We have repeatedly pointed out that in peacetime we must provide what the consumer wants to buy, while in wartime the exact opposite is true—the consumer can buy only what the dealer has to sell, and the dealer must continuously acquaint the public with what he has to offer. Simultaneously, we cautioned the dealer to apply the most conservative fiscal policies in everything *except* advertising and direct sales cost.

INTERNAL POLICIES

Our internal policies also have had a major bearing on maintaining good dealer relations in wartime. We standardized and simplified our product lines, eliminating all frills and reducing colors, styles and grades by as much as 50 per cent of our varied pre-war lines. This has lessened the dealers' inventory problems and materially increased the supply of products available.

For years we have held that intelligent dealer relations policies can only be based on a detailed knowledge of what the dealer is currently thinking and, more particularly, *what the dealer is really thinking of us!* This information can be attained only by frequent executive contacts with individual retailers and their markets in typical situations throughout the country. It requires a great deal of travel by headquarters and district personnel, but no expenditure of money and effort in dealer relations has been more productive. Out of a

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year of such experience our dealer relations department recently issued a bulletin to our entire sales organization entitled: "101 Ways to Help Your Dealer Survive in Wartime." Thus in 1943 we shall have widespread application of successful case histories uncovered in 1942.

To present the "feel" of this document, I shall quote a dozen or so of the "101 Ways" (it should be borne in mind that these are addressed to Johns-Manville territorial representatives):

Maintain a constructive, enthusiastic and cheerful attitude, eliminating all defeatism, pessimism and apathy regarding military or industrial matters. Be realistic; secure and analyze facts but interpret them constructively, and treat them with resourcefulness, imagination and ingenuity. You are fighting on the home front and you should remove all doubts or misgivings but what the fight you and your dealers are making is vital to our country's welfare. You have the more difficult fight—in a mental arena—with intangible enemies of apathy and defeatism. Yours is more than a battle—it's a *crusade!*

Impart this conviction to your dealers: Necessary housing repairs, maintenance, insulation and farm construction are a part of the war effort—*the building industry retailer who renders an adequate community service on these items is an essential industry.* Only those who fail to meet this challenge are unessential. The morale of your dealers and their employees is your responsibility. Johns-Manville is essential to an efficient civilian population—you are too! And the dealer is!

Fully understand the "Can't Do's!" but concentrate on the "*Can* Do's!" and "Should Do's." Don't worry about future restrictions. Deal constructively with the realities and opportunities of the present. Be the "Can Do" expert in the retail field in your territory. *Getting the most service done within the rules is helping the war effort!* When the government needs further sacrifices it will ask for them. Failure in business is not patriotic.

Analyze every unusual item or package sold profitably by each of your dealers—make a complete list and broadcast the information to all of your dealers.

Get each dealer to take an odds-and-ends inventory of his stock, and work with him to build a list of consumer uses for same. Follow with a sales drive.

Discuss pooling of hard-to-get items and services with your dealers. Group administration and exchange might mean the best possible use, service and profit.

Get your dealers to buy distressed stocks (at the right price) where other retailers are forced out of business. Watch particularly for opportunities in the field of hardware, paint, plumbing, heating, electrical appliances and farm machinery.

Watch wrecking, demolition and second-hand merchandise opportunities in your territory. *Anything you can suggest which will enable the dealer to turn an honest dollar* will not only strengthen your own marketing structure *but will earn the sincere gratitude of the dealer.*

Induce the dealers to build prefrabricated packages using J-M materials. A recent trade journal survey showed 50 per cent of all dealers had started to yard fabricate hog houses, poultry houses, etc. Have all of your dealers taken this profit making step?

See that your dealers offer the consumer three methods of purchasing J-M packages: (a) built by a contractor; (b) yard fabricated; (c) the materials for the consumer to build himself.

Look for temporarily unemployed highly successful middle-aged automobile salesmen and put them to work for dealers selling Type B insulation. Several dealers report earnings of $55 to $80 per week by these men.

Sell your dealers on the proposition of rearranging their offices, displays, decorations and consumer rooms to fit wartime needs. Get them to install a war bond sales booth manned by volunteers.

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Insist on each of your dealers having a "Farm Day," with or without the J-M trailer. Thoroughly organize this with the dealer on an educational, promotional and sales basis. Get the dealer to build a line of prefabricated farm buildings from J-M materials to offer for sale and delivery on the spot.

Set up in each dealer operation a plan to work with County Agents, Four H Club, Granges, etc., in the extension of Johns-Manville's products and services to the farm. As long as the war lasts and for some time after, the farmers will be the "fair-haired boys" from a purchasing power viewpoint.

Begin a thorough, steady and consistent use of letters and personal notes to your dealers in between calls. In your program of saving rubber and gas you will make fewer calls. To avoid lost efficiency, you must *make each call more thorough* and maintain *mail* and phone contacts between calls. These will prove to the dealer that you have his interests at heart in these trying times.

Keep the "spirt of tomorrow" alive in yourself and your dealers. The building industry is going to be the most favored industry in the postwar era, and the dealer who survives will be exceptionally fortunate in a fortunate industry. Inject a fighting spirit in your dealers but be careful that what you recommend does not involve serious financial losses. Don't worry if you have the *proof* of others' success with your recommendation! Be a member of the Postwar Planning Committee in each of your dealers' operations.

Remember, you Johns-Manville men, that you are the *Commandos-of-the-Home-Front* in the building industry, *the best trained fighters for better merchandising and consumer service in the entire industry!* Heads up!

Results of this program cannot be measured accurately as yet, but it is our belief that, because of our intensive efforts at dealer cooperation in wartime, our dealer mortality will be held to as low as 15 to 25 per cent in the war period; otherwise it would probably have reached 33⅓ to 40 per cent. And when it is considered that there is a 15 per cent fringe of dealers who usually expire at a slight economic shock, the net saving amounts to about 800 to 1,000 dealers.

This program has a bearing, too, on postwar planning. At the start of the dealer relations program, realizing that we should come to it sooner or later, we adopted the principle that "the public interest is paramount." We saw that important executive decisions would, in the future, have to stand the white light of publicity, and we were governed accordingly. Thus, our effort has been to supply the public with more and better building service for less money, and to pay higher real wages. These principles have grown stronger over the years and are the foundation of our postwar planning in dealer relations.

In closing, here are two conclusions we have reached after 10 years of dealer relations work. First, in the search for new ideas and innovations, we must never neglect the fundamentals of marketing and management which always remain the same, since no creative program will be successful unless it is predicated on them; second, the essence of good dealer relations is mutual loyalty between the manufacturer and his dealers, and the final measure of success of any dealer relations program is therefore the degree of that loyalty.

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COVERING THE SALES TERRITORY

By J. W. CRAFTON
Assistant to Vice President, Sales and Advertising
Swift & Company
Chicago, Ill.

IT has been most interesting to observe in the last year how America, a hard-working but pleasure-loving and peaceful nation, has adapted itself to an entirely new set of conditions. Our quick transformation into a fighting nation is best illustrated on the home front by the remarkable record of industry. Our factories have made complete changeovers in their operations and are now producing war supplies at a rate greater than that of the Axis Powers, which had years of preparation.

The sales branch of business is also meeting the challenge. It is well organized, and it is doing a good war job—within the limitations of newly formed regulations.

A cartoon in a late December issue of *Collier's* showed a big, well-dressed man, unquestionably a capitalist, leaning on a bar having a drink with a friend. He was saying, "This year I've resolved to limit myself to one cup of coffee a day, own only five tires, and pay bigger taxes."

That wisecrack is typical of the attitude of some business men, who think of the war primarily as a most disconcerting interference in their business and their private lives. Fortunately such men are few. The cartoon is also typical of the opinion of a considerable portion of the public concerning leaders in industry and their wartime sacrifices.

Some people read about the huge production and increased sales in millions or billions of dollars, and believe that industrial leaders are sacrificing only what they are forced to sacrifice, like gasoline and coffee, while reaping fat profits. These people fail to realize that the millions in profits reported on the financial pages are but a small percentage of the volume of business handled and that, after taxes are deducted, the share remaining for stockholders is but a fraction of the total received by employees in wages and salaries.

THE AUTHOR J. W. Crafton joined Swift & Company in Kansas City at the close of the last war. After four years as a salesman he was transferred to Fort Worth, Texas, as sales manager for that city and other sales units, a position he held for six years. After two more years as district sales manager at Houston, he was transferred to Chicago as assistant to the vice president in charge of sales and advertising.

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Proper distribution of all necessary materials, food, fuel, clothing, shelter, and related goods and services, is vital to winning the war. And all our post-war planning is predicated on one vital assumption: We must first win the war!

Our primary objective at Swift & Company, as it is with all American companies, is *to do whatever we can to hasten the downfall of the Axis.* All business meetings should avoid giving any impression that we are thinking less of this immediate objective and more of feathering our financial nests for the future. We all know that this is not true, but false impressions and rumors have an evil way of propagating.

In keeping contacts alive, the primary objective of winning the war should be kept clearly in mind. A call on a customer with no purpose but to keep his patronage is as wasteful as ruining a set of tires. The buyer is just as patriotic as the seller and is just as willing to adjust his business to the requirements of the day. We have found our customers quite willing to accept any reasonable change in methods.

We at Swift, in the midst of war orders, OPA rulings, ceilings, and restriction orders, have kept our noses pretty much to the meat block or desk. What I shall tell you will be strictly along the lines of how Swift is covering its sales territories.

SWIFT'S WARTIME SALES PROBLEMS

Our wartime sales problems may be divided into four major groups:

1. *Availability of product,* after taking care of our armed forces and our fighting allies.
2. *The most equitable distribution* possible, based on available supplies of meats, poultry, butter, eggs, cheese, lard, and other products in which we deal.
3. *The manpower to make an economical, efficient distribution.* This includes the salesman who calls on the trade, truck drivers, and others in the distributing branch of our business.
4. *The limitation of supplies and equipment,* principally automobiles, tires, and gasoline.

To make our distribution as efficient and economical as possible, and to conserve needed materials, we have made many changes and adaptations in our regular schedule.

AVAILABILITY OF PRODUCTS

I do not have to say much about availability of meat at this time. Secretary Wickard, Mr. Henderson, and your wives have already said plenty on the subject.

Our principle is to make as equitable a distribution to our customers and

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to the market centers of the nation, population shifts considered, as the available supply will permit. Because there is a smaller supply available to civilian markets, the sales organization is streamlined to keep costs of distribution from mounting. In other words, we have endeavored to keep the sales cost in line.

The second problem concerns the marketing centers where demand, or *need,* is greatest. There have been radical shifts in population centers during the war, and where the people go, their meat must follow. We, therefore, keep a close watch on all the markets, which means in our national business on practically every city and town in the United States. When there is an important change in demand or need in any particular city, our sales organization is changed to serve it.

There have been population shifts in some counties of as much as 33⅓ per cent. Litchfield County, Conn., shows a decrease in population of 32 per cent since 1939. Windham County, Conn., shows a decrease of 33 per cent. These counties are largely rural and the decreases are due, in the main, to the migration of the people to new war work projects elsewhere with more attractive pay. Franklin County, Pa., shows a decrease of 20 per cent. Allegheny County, Pa., with a population of 1,411,000, shows a decrease of 13 per cent. While this may not appear too impressive, compared to the larger decreases for other counties, its importance is realized when we consider that this means a shift of about 200,000 people.

Where such changes as these have taken place, it has been necessary to adjust our sales operations and supplies to fit the new conditions. At some points we discontinued our wholesale branch houses entirely and transferred the territory to nearby branches or to one of the meat plants for direct handling. This means that the salesman covers a wider territory, visits the retailers periodically, takes their orders, and has the plant ship the goods by railroad or truck direct to the customers' stores.

San Diego, Calif., is an example of the opposite trend. This city grew from a population of 289,000 in 1938 to 376,000 in 1942, a 30 per cent increase. There are, of course, many other examples on both sides. As a result of these shifts in population, it has been necessary for us to change the proportion of goods shipped to the various markets.

MANPOWER

Although our full share of employees have cast aside working clothes for fighting uniforms, while others have left for more warlike industries, we have been able to keep our selling force up to its needed strength. Approximately 10,000, or 12 per cent, of the entire Swift organization are now in the armed forces.

We, of course, have made many changes, trimming the sales units to the most efficient minimum. Some of the transferred men are now working in meat

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plants or other branches. We do keep in mind the great value of trained and experienced salesmen who will be needed when the present restrictions on supply and demand are no longer present.

Fortunately, the increased number of total employees made it possible to absorb practically all these transferred salesmen in other branches of the business. During the last year approximately 17,000 new workers were employed, principally in meat packing plants (including the 10,000 who took the places of those going into the armed forces).

LIMITATION OF SUPPLIES AND EQUIPMENT

We never realized the importance of tires and automobiles until the Japanese swarmed down into the Malay Peninsula and the East Indies. In Fort Worth, Bloomington, Denver, Dallas, Sioux City, Charlotte, New Orleans, and many other towns, Swift salesmen are using bicycles instead of cars. Our salesmen are doing a lot more walking and are making greater use of street cars and other public conveyances.

In order to save on tires, gasoline, and cars, some salesmen are "doubling up" with non-competitive salesmen who cover the same territories. A Swift man, for instance, may travel with a salesman for fruits, vegetables, or groceries. This works out very well when two salesmen cover the same general territory, stopping at small towns in rural areas. They park the car on the main street and separate to do their respective selling on foot. Another method in far-reaching, country territories is for our salesman to go by train or bus to some point in the territory and pick up his car for nearby use. Then at the end of one or two weeks he leaves the car in some town and takes the train back to headquarters. Sometimes a saving can be made by riding in a company truck to a point near his route. Salesman and managers check the time schedules on all means of transportation, including bus lines, passenger trains and freight trains where passenger travel is permitted, to save as many tire miles as possible.

Less frequent calls are being made by salesmen on customers. With a little planning, foresight and proper explanation, dealers can easily be induced to place larger orders and less often. Greater emphasis has been placed on the use of the telephone to replace many of the personal visits of salesmen. Experience has shown that the phone saves a great deal of time as well as rubber and gasoline.

A minimum weight of 50 pounds has been placed on all deliveries of company products. The big truck with the small order is OUT for the duration. Eagerness to give a complete, on-the-minute service had, in the past, led to many abuses. It was customary before the war to make daily deliveries to many of the larger customers. Some received goods every other day, and others twice a week, while the smaller stores were on a weekly delivery basis. In line with the government's program, truck mileage in city and suburban areas has been trimmed more than 25 per cent. Larger customers now receive meats and

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other products on the average not more often than twice a week and so on down to the point where some of the trade is now visited by the delivery truck every other week.

COMBINING TERRITORIES

In some Western areas, we are combining two territories, working them with only one salesman every other week. In some cases we do this with one car; and, in other cases, depending upon territory layout and the need for conservation of tires and gas, we leave both cars on the territory and the salesman uses car "A" to cover territory "A", and the next week car "B" to cover territory "B".

We have also been able to reduce materially the hours that we keep our branches open for business. Some branches are open not over 14½ hours a week for call trade. Normally we would be open 40 hours or more. This permits quite a reduction in inside salesmen.

With our type of products it has long been considered a definite sales advantage for the prospective purchaser to view the goods offered for sale. If a product has quality, it will naturally do a good job in helping to sell itself. For that reason, we at Swift have encouraged retailers to come to the sales unit and go through the coolers. In this period of restricted supplies, however, we have been faced with a serious difficulty in trying to pro-rate the short supply equitably. It is hard for the retailer who sees the product in our coolers (as inadequate as the supply may be) to understand why his small order cannot be filled in full without great penalty to anyone. Since many customers expect these exceptions, the problem becomes serious. Consequently we discourage these visits and at many of our units we do not permit them.

A number of small towns have been eliminated from our salesmen's regular routes. Some of them are visited only once a month, rather than weekly. To take care of the in-between visits of this trade, we have devised a special "Want Order Book."

CONVENTION BY RADIO

Probably one of the most unusual savings that we have effected in the last year is in a new type of sales convention. We all realize the value of general meetings during which the top sales representatives inspire the men out on the territories and give them the latest information on products and methods. This year we saved more than 300,000 miles of traveling by holding a convention by radio to small meetings in the various sales unit headquarters throughout the country. Only our own organization heard the meetings, because the talks went over a closed circuit network. We were not able to reach every man, but we did get more than 90 per cent coverage with all key men included. This wartime message to our sales organization was devoted not so much to selling as to explaining why we were *not* selling.

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The salesmen were given a formula for contacts with customers covering such points as:

1. Be good listeners. Let the dealer tell you his troubles and then be patient and tolerant in helping him with them.
2. Avoid wisecracks. The dealer's troubles today are *real* and if we try to dismiss them with a wisecrack, we may lose a friend.
3. Don't pass the buck to the house.
4. Explain. Give the dealer a full explanation of the "whys."
5. Be helpful. Suggest other products which may be available.

SALES BULLETINS

Our Merchandising Service Division sends out, whenever indicated, a one-page bulletin under the caption "LISTEN . . . THEN EXPLAIN" for the use of our salesmen and sales managers in getting over to the dealers the reasons why we are unable to take care of their full requirements. Our organization has found these bulletins quite helpful in these critical times in explaining to the dealers the true reasons for the stock situation and also in combatting erroneous opinions.

AIMS AND BENEFITS OF SWIFT'S PROGRAM

We have estimated that despite the unusual demand for our products, the readjustments we have made are reducing our passenger car and truck mileage by more than 45 million miles a year. This means a saving of more than four million gallons of gasoline and 1,300 tires, and this figure will continue to grow as we work out other proposed changes.

Swift & Company is in a fortunate position because the products in which we deal are vital for the strength, health, and morale not only of fighting men but, also, of the millions of civilian workers and their families. After serving the armed forces and the United Nations, our job and our aim is to cooperate in distributing meat supplies for domestic consumption as fairly and equitably as possible.

There is one ray of hope for modern managers of marketing. Out of this crucible of war will come refinements in distribution, greater efficiency, and elimination of waste.

There are additional by-product benefits. When our Fort Worth sales manager was rationing bicycles, he decided to exempt one salesman because of his age and figure, but Red didn't see it that way. He got highly indignant so he was given a bicycle. A short time ago I got a report on him to the effect that he was very happy about it. He said that not only was he helping the war effort, but he had reduced his waistline three inches and no longer needs to take bicarbonate of soda because his digestive organs are now in perfect condition.

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SUMMARY

The activities now being carried on by Swift & Company to reduce selling costs and conserve on vital materials, while still maintaining customer relations, are briefly:

1. Adjusting our sales organization to meet the needs of a hard-working, shifting population.
2. Adjusting our sales organization to handle the smaller supplies available for civilian markets so that the foods for the home front will be equitably and economically distributed.
3. Streamlining our sales force to handle the smaller volume. In so doing we retain on our rolls as many salesmen as we possibly can, by transfer to other branches of the business.
4. Using bicycles, shoe leather, streetcars and such special conveyances as trucks and freight trains (where permitted) to supplement the regular rail and tire transportation of salesmen.
5. "Doubling up" with non-competitive salesmen in car-sharing plans.
6. Fewer personal calls on customers and more telephone calls.
7. Fewer truck deliveries and larger individual orders.
8. Reduction of hours our sales branches are open for business.
9. A new "Want Order Form" which travels at a transportation cost of 1½ cents each, in the mail car.
10. Conventions by radio.

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WARTIME ADVERTISING POLICIES AND OBJECTIVES

INTRODUCTION

By HOMER J. BUCKLEY
President
Buckley, Dement & Company
Chicago, Ill.
Chairman of the Session

WITH little to buy and new things to worry about, people may forget the advertising world of yesterday. Years of threats, appeals, persuasions by advertising men, had almost convinced the U. S. citizen that he had halitosis, dandruff, fallen arches, falling hair, worn-out furniture, out-of-date bathrooms, obsolete washing machines and ineffective toothpaste in his inferior home; at his side an inferior wife whose hands were dishpan-red, whose linen had tattletale gray, and who would be left in want when he was run over by a car with inferior brakes. But war agencies have superseded the advertising man.

We are all well aware of the fact that business executives today are faced with many uncertainties which make it difficult to determine what may constitute a sound program of wartime advertising. Nevertheless, certain forecasts can be crystallized if we pool our experiences; while they cannot necessarily be certified as a definite guidepost, they can be construed as a basis of sound decision.

To illustrate let me tell this story: A judge was questioning an officer who had brought a man accused of drunkeness before the court. He asked, "Officer, can you swear this man was actually intoxicated?"

"I think he was, your honor," replied the officer.

"I don't want your opinion officer," stormed the judge. "I want facts. Are you prepared to swear this man was drunk?"

"No, your honor," stated the officer, "I can't swear he was drunk. But he

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THE AUTHOR Homer J. Buckley, president of Buckley, Dement & Company, was a pioneer in organized advertising. He was a charter member of the Advertising Club of Chicago and founder and first president of the International Direct Mail Advertising Association. He also organized the National Council of Business Mail Users and served as its president for 15 years.

Mr. Buckley is staff lecturer at Northwestern University, University of Illinois, and Notre Dame University, and chairman of the Advertising Foundation Fund Interne Scholarships, Northwestern University. He is the author of two books on advertising, *Science of Marketing by Mail* (Business Book House) and *Mail Order Advertising* (International Text Book Co.).

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acted mighty peculiar. I found him at 3 o'clock in the morning leaning against a lamp post. He had turned the key in the fire alarm box. Then he looked at the clock on the church steeple across the street and said: 'My gosh! I must be starving. I've lost 35 pounds.' "

Unlike the judge in this story, we want to bring out not only opinions, but facts as well—facts based on the experiences of firms doing nothing but war work, those still engaged in distributing peacetime products, and those at any stage between the extremes.

Among the 18,000 top-rated manufacturers and business enterprises in this country, not more than 10 per cent are giving any serious consideration to the question of establishing a well-defined wartime advertising policy with a definite objective. Most of them are going along from day to day in the whirlpool of high-geared war production—and *properly so*—but, unfortunately, specific long-range planning is lacking. No importance is placed on study of the postwar picture, and no attempt is made to determine what may be anticipated—in new products and new markets.

Those who remain self-contained during this war period—loaded to the guards with war contracts, completely ignoring old customers and marketing channels—will emerge into a new peacetime world only to find new faces behind old desks and new industries run by new people. Every industrial concern, no matter how well established heretofore, will be competing in a market vastly different from the old.

With the end of the war, the United States must turn its tremendous industrial production capacity to peacetime uses. The world will be its market. From then on our economy will be international in scope.

These thoughts challenge the sales planners. There are many ramifications to be considered, but it is well to visualize the situation on a long-range basis.

WHAT TO ADVERTISE

When I speak of wartime advertising policies and objectives, I have in mind particularly what each and every business can do—today, tomorrow, and the next day—whether engaged entirely in war work or continuing in the distributing of peacetime products. First and foremost, advertising can be used on a planned basis to sell the American system under which free enterprise has flourished and without which it cannot survive. What will it profit us as Americans if we win the global war and lose the peace, and with it our American system of free enterprise? Second, it can be used as a means of better employer-employee relations, thus stepping up production; it can be used to promote safety programs and training manuals, to sell nutrition programs which insure better health and reduce absenteeism, to induce employes to buy more war bonds and stamps—and it can cooperate with the government in other similar ways.

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AN ATTACK ON ADVERTISING

I am deeply concerned with the recent open letter signed by 209 so-called economists—college professors, psychologists, and political scientists—addressed to Henry Morgenthau, Donald Nelson, and other government officials, urging a limitation of wartime advertising,

An analysis of the list of signers reveals one noteworthy fact: Not a single name in the list represents that part of the academic world which has to do with the subjects of marketing or advertising or the related subjects of business administration, commerce, or finance. But as George Nichols in a *Printers' Ink* editorial so well said:

> The letter is both amazing and disturbing. Amazing because of the apparent inability or unwillingness of these educators to think things through. Disturbing because it is one more striking indication of the age-old antagonism between town and gown. It is this antagonism which makes so many economic textbooks almost totally unrealistic in their conception and understanding of the relation of many phases of modern business to the economic world.
>
> Whether or not the economists like it, the American system is based on the prosperity of business enterprise. Under this system business men have committed many sins, some of them gross. But under the system, we have created in this country a standard of living unparalleled in world history.
>
> Who will pay for this job? A large part of the payment must come from the business enterprises of the United States. As Colonel Willard Chevalier of McGraw-Hill has said, almost the sole collateral we have with which to pay the war debt is vested in the success of American business houses.
>
> This country has asked many of these houses to disrupt their normal ways of business to devote their production solely to war materials. It has asked them to forego the sale of products that have become household words through the investment of millions of dollars in advertising.
>
> These business firms, being far more realistic than some of our economists, know the importance of protecting their trade names during a period when the products carrying these marks cannot be sold. A wise government has made the statesmanlike decision that they can continue to advertise those trade names and trademarks so that when the war is over, the names will not be forgotten and the manufacturers will not be penalized for contributing to the war. Perhaps in an economic "Never-Never Land" this would be unwise. In the extremely realistic country we live in, it is sound.
>
> If our advertisers (and this includes not only the large consumer advertisers but also hundreds of small plants, as well as large and small capital goods plants) are able to start again after the war with their good-will unimpaired, then this nation is that much farther along the road to winning the peace.

NEW ADVERTISING STUDY

More optimistic news is that an industry program is about to be launched to study postwar advertising, under the sponsorship of the National Industrial Conference Board. This study will stress the economic value of advertising, reporting on the role advertising will play in reconstructing the American consumers' market in a postwar world. It will concern itself not merely with advertising as a technical device of market expansion but more especially with it as an instrument of economic growth, social improvement, and cultural progress through its inter-relation with productive development, technological advance, public information, and consumer education.

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Included among the main topics to be studied, with the cooperation of technical consulting groups in the various fields affected, are:

1. The relation between advertising, productive expansion, and employment.
2. The relation between advertising and technological development.
3. The effect of advertising on total national consumption, i. e., on the plane of living.
4. The effect of advertising on diversity of goods and services, i. e., on the pattern of living.
5. The effect of advertising on per capita use of staple commodities.
6. The effect of advertising on distribution of family income between consumption and savings.
7. The effect of advertising on per capita use of specialties.
8. The effect of advertising on flow of necessities, comforts, and luxuries, respectively.
9. The relation between advertising and the growth of use of consumer credit.
10. Advertising as an integral part of management of selling and cost of distribution.
11. The role of advertising in support of the press.
12. The support given by advertising to broadcasting, to the system of radio communication in private hands, as distinguished from government broadcasting.
13. The dimensions of advertising as an industry.

I. HOW ADVERTISING AIDS THE WAR EFFORT

By VERNON D. BEATTY
Advertising Manager
Swift & Company
Chicago, Ill.

IN this paper I shall report on a happy situation that arises out of the war—if anything happy can arise out of war, short of victory itself.

Business, a couple of years ago, felt it was 'way off here, with government 'way over there, and often the two seemed to pull in opposite directions. Today, whether the individual likes it or not, or understands its importance, business and government are pulling together as no one would have dreamed possible a

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short while ago—in as complete a partnership, under the circumstances, as anyone short of a perfectionist could wish for—cooperating for the speedy accomplishment of objectives which both now realize are common to both.

The objectives are (1) to win this war with dispatch, and (2) to preserve our economic structure during the war and the peace to follow.

ADVERTISING'S NEW ROLE

Both objectives involve understanding and cooperation on the part of the citizens. That is where advertising comes in—as a proved implement of business called into service by government to aid in the accomplishment of mutually desirable ends. After all, the same tools and techniques that have put over hundreds of new products; that have made mass production possible; that have sold "the pause that refreshes," "B.O.," "irium," "tattle-tale gray," and "dishpan hands"—these same tools and techniques are the ones we need to sell the war effort, to tell people to buy war bonds, to drive under 35 miles per hour, etc.

This is a happy situation for government because it places at its disposal the productive efficiency of an important business tool. It is a happy situation for business, because government, by reason of its recent experiences with advertising, now recognizes more than before the productive value of advertising. Hence business, it may be expected, will be less and less called upon to justify its advertising to government departments.

This is a happy state of affairs for advertising as a profession, because it is receiving new recognition, not only from government but from business itself, which in the past sometimes lacked complete enthusiasm for one of its own most powerful instruments.

Over and above these considerations, of course, is the satisfaction which advertising men enjoy in engaging in a service which, for the time being at least, is not wholly selfish and commercial.

BEGINNING OF THE PROGRAM

How did all this come about? Let us go back a year or so. On the first Sunday afternoon in December, 1941, a certain well-known New York advertising man took the train for Washington, intending to confer with a certain top-flight business man in government, who had requested his advice on a gov-

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THE AUTHOR Vernon D. Beatty's advertising and merchandising background includes some 15 years in the advertising agency field, prior to which he spent several years as a newspaper man. For the last eight years he has been with Swift & Company, and for the past two has been a member of the Executive Planning Committee of the American Meat Institute, sponsors of the meat industry's widespread educational program.

Mr. Beatty is a director of the Audit Bureau of Circulations and a director of the Advertising Council. He served as coordinating director for the "Share the Meat" campaign, working through the Council with the Office of War Information and the Food Requirements Committee headed by Secretary Wickard.

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ernment problem. Not until the New York-Washington train was well on its way did the flash come through that Pearl Harbor had been attacked. My friend decided to go on to Washington, even though he knew that few if any government people would be free in the ensuing days from the confusion that must come to a nation's capital at a time like that.

To his surprise and pleasure, he found not only the man upon whom he was to call but a handful of others ready and anxious to go ahead with discussion of the project originally proposed and of others which, upon the sudden advent of war itself, required speeding up through a better public understanding of the objectives and the reasons therefor. Later in the week the advertising man returned to New York to bring together, at the request of the government men, a group of advertising's best brains, in order that individuals in government might call upon them for counsel and assistance.

THE ADVERTISING COUNCIL

Thus the Advertising Council was conceived and born. It took some weeks, but eventually the organization was incorporated, not for profit. A few men who instantly saw what it might mean to the war effort provided the first funds. These funds later became sufficiently sizable to permit the adoption of a budget and the planning of a procedure. But to this day nobody in the Council draws a penny of salary, except the managing director and a relatively small staff. All active members donate not only their time but their expenses as well. The funds of the Council are all donated also.

Well, what happened? Before the Advertising Council was really ready to function, it was functioning. Office space in New York was donated, and an office opened in Washington where, one might say, "The shingle was hung out." One of the fundamental principles on which the Council operated, and still operates, is that at no time will it solicit any assignment from anyone in government. The Advertising Council merely made known its presence and its resources of "know how" in its particular and specialized field. It said, "Here we are. If you think you might need what we have, call on us freely." It also said, in effect, "We have no axe to grind; we do not seek to promote or encourage advertising except where you and we believe it might be helpful; in fact, we shall not recommend the use of advertising if, in a given case, we believe it should not be used. All we want to do is help win this war, if our specialized talents can be brought into play to do so."

As, one after another, government-inspired projects gained momentum and achieved success with advertising, other departments of government began to wonder if there might not be something to it after all. They began to call upon the Council, and the Council became really productive in the war effort. At last count there were some 36 different projects in its hands.

In the early stages, assignments came to the Council from various government departments, bureaus, and offices. Later the Office of War Information

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was set up by Presidential order under the direction of Elmer Davis. This war-born government bureau is divided into two parts: (1) the foreign section; (2) the domestic, or home-front, section. The home-front section is under the leadership of Gardner Cowles, a prominent editor and publisher. It has nothing to do with the Office of Censorship—that is something else. The domestic branch of the OWI is engaged not in telling people what they should not print, but in suggesting to educational media what they can or should say to the citizenry if they want to be on the same wave length, so to speak, as the government's wartime objectives.

Note I say, "What they can and should say if they want to." One of the tenets of OWI is that all cooperation shall be on a purely voluntary basis. That, indeed, is one of the democratic principles for which we are fighting this war. The OWI and the Advertising Council propose to do nothing to destroy it.

In OWI there are several bureaus: the Radio Bureau; the Bureau of Graphics; the Bureau of Special Activities; the Bureau of Intelligence (Research Department); the Press Bureau; and the Bureau of Campaigns, which is engaged solely in coordinating advertising pertinent to the war effort. (All are, of course, under the domestic branch of OWI.) The Bureau of Campaigns is, in effect, the advertising department of the government. And the Advertising Council is, in effect, the government's advertising agency—with the great distinction that nobody in the Council can make any money from any of the Council's activities.

ORGANIZATION OF THE COUNCIL

Now precisely what is the Council? It is a huge reservoir of talent and technique to be drawn upon as the occasion requires.

All members and affiliations have placed themselves "on call" for service to the government through the Council. I know of no organization like it in the whole industry of American trade associations. I know of no other in which so many people who ordinarily compete with each other have joined forces to do a job together.

The men directing the Council activities represent the advertisers, the magazines, the newspapers, the advertising agencies, the radio stations, the outdoor poster plants, local advertising clubs, and all the associated and affiliated groups involved in the advertising business.

Only an advertiser is assigned the job of coordinating a government project which falls into the Council's lap for solution. Thus a coordinator, who has full charge of a project in all its phases, is never a publisher, a media man, or an advertising agency man. This eliminates any possibility that the coordinator might have a predilection for any medium or form of advertising.

A coordinator surrounds himself with what is called a "task force" of advertising and merchandising talent of his own selection. These may be individuals or they may be advertising agencies, chosen from among the 400 agencies

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and 1,600 individuals from all parts of the country who have volunteered for this work.

WHERE ADVERTISING IS NEEDED

Among the government projects which have required advertising promotion are: the voluntary tire conservation program, the idle-tire purchase plan, the national mileage ration (now crystallized in nation-wide gasoline rationing), the programs for the conservation of rail travel and consumer deliveries, and the truck conservation program—all of which are part of the program for the conservation of transportation. Others are the scrap metal salvage campaign, the campaign for the salvage of fats and greases, and the drive to salvage tin cans.

Advertising for the Treasury Department promotes the sale of war bonds and stamps. Under the heading of anti-inflation activities come campaigns to explain regulations to industries, drives to explain price control to the public, and the campaign against hoarding.

Campaigns to promote the maintenance of household equipment and the conservation of clothing have also been initiated, while other government projects which have lent themselves to advertising include the typewriter procurement plan, the redistribution of materials, inventory controls, and a number of others. Advertising is needed also to induce the public not to repeat military information or believe rumors; and much can be done to educate people on our relationship to our allies.

TRENDS IN ADVERTISING

So much for the Advertising Council. What about the trends in advertising which have developed during the past 12 months?

Prior to Pearl Harbor, all advertising which paid any attention to the war stressed the defense theme. But Pearl Harbor brought an instant change. In the first reaction to actual war much advertising took on a boastful attitude, an attitude of cocksureness. Then came a settling-down process, wherein advertisers sought to aid what appeared to them (and rightly at first) our primary national objective—war production.

Quickly it became evident, as shortages began to materialize, that conservation needed attention. So conservation and maintenance took their places along with production as wartime themes for many advertisers—how to make that article last longer, how to get along on less of this or that.

Now, while production, conservation, and maintenance are still stressed, a new and necessary theme is creeping into wartime advertising—two themes, in fact. Why is it necessary to produce, to conserve, to maintain? The people are hungry to know what is back of every new condition they must face. Closely related is the theme we are beginning to see and hear more of: What are we

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fighting for? What's this all about? What's at stake? What does it mean to me? And what can I *do* about it?

A bewildered or disgruntled people is a wartime handicap. An *understanding* people is a wartime essential.

Advertising does its share in bringing about public understanding, and it does so as no other form of education can. Only through advertising can a standardized story reach the people whom it is designed to reach at the time it is scheduled to reach them. No editor or script writer, no public speaker or vocal educator cuts it, amplifies it, changes its slant, or otherwise destroys or distorts its theme.

THE MEANING OF DEMOCRACY

Commercial interests are sometimes irked by the dislocations which accompany wartime restrictions—restrictions placed on our private *and* our business lives. The new controls of business and home life have come upon us quickly. We have not had time to adjust ourselves. It is natural that confusion, irritation, and resentment should follow, even while we struggle to conform.

The President has emphatically stated that the special powers the executive must exercise in wartime will, after the war, be returned to the people to whom they belong.

Hitler says there is no room on this planet for his system *and* democracy. The Japs would impose their savagery on every other race.

What, then, are we fighting for? We are fighting for all that makes life worth living. We are fighting for the very liberties which we have temporarily relinquished and which our President has promised us will be returned to us. I was impressed recently in Canada by signs everywhere, reading "If we lose, nothing else matters."

If we do not believe that; and if we do not believe that the wartime executive powers will be restored to the people, there is relatively little point to our taking seriously Hitler's statement that his system and democracy cannot exist together in the same world, because, without postwar restoration of our normal liberties, there would be relatively little of the democracy we are fighting for.

First we must *understand* and *believe* in the need for the restrictions and the pressures placed upon us. Second, we must be told *how* to adjust ourselves. And, third, we must *know* that they are wartime necessities. And that is why advertising, as a means for bringing about the necessary understanding, is of growing importance as a weapon of war and as an instrument for public service.

Hence we might say that advertising, like our businesses and our sons, has gone to war. In the process, advertising is learning a great deal. Advertising men are becoming more valuable to their employers because they are gaining a broader vision of advertising's part in a democracy. Never again, I believe,

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will advertising men be willing to devote their skills and abilities *exclusively* to making money. Advertising's emphasis on public service in wartime is *bound* to continue in our future peacetime economy.

* * * * * *

Question: In shaping your advertising program for 1943, have you considered reducing or enlarging the budget?

Mr. Beatty: We have 55 budgets in Swift & Company, and the total of them all will probably vary only a fraction of 1 per cent from what we set out to spend at the beginning of the year. However, we have temporarily ceased to advertise in one or two fields.

Justin R. Weddell (assistant to the president, Union Bag & Paper Corporation): In England the Ministry of Foods advertised definite programs, definite recipes, definite budgets, and required all food advertisers to see to it that nothing said in their advertising would weaken or sabotage that message, and in order to implement that ruling, advertisers are required to submit copy to the Ministry of Foods. Do you consider a regulation like that undemocratic?

Mr. Beatty: I think the voluntary method, if it is successful, is the democratic method. However, British economy, geography, and industry are more compact and more easily controlled, and the people are more nearly ready to be controlled—in fact, they invited control after the disasters they encountered.

The United States may come to regulations of that type if the exigencies of the future require it. I don't think the American people or American industry is ready for them at present.

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II. ADVERTISING THEMES IN A WORLD AT WAR *

By WALTER A. BOWE*
Advertising and Public Relations Manager
Carrier Corporation
Syracuse, N. Y.

BUSINESS today is operating in a period when it is the purchasing agent who picks up the luncheon check.

Perhaps that simple statement of fact provides a suitable starting point for a discussion of the role of advertising in a world at war. Certainly it serves to express clearly a changed relationship between producer and consumer, manufacturer and dealer, that has come about as the direct result of war.

Today the desire for the products of industry, whether producers' or consumers' goods, is mounting steadily—and this despite the fact that direct sales contacts have been curtailed and, in the case of many companies, abandoned altogether. We cannot extinguish the desire for products and new equipment, even by staying away from what we should normally call "sales prospects."

The fact of the matter, of course, is that as a nation we are in a "sellers' market." And it is this fact which leads some people to question the necessity of advertising in times like these. The point they overlook is that the present situation is abnormal. It will not last forever. When the war is over, or shortly thereafter, the situation promises to be reversed.

ADVERTISING FOR POSTWAR BUSINESS

Sound business management recognizes this fact. It sees in the ever-increasing pent-up demand for industry's products the potential sales of tomorrow. It knows that even though the salesman's role may have diminished

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Mr. Bowe was employed by the General Electric Company in Schenectady and New York for 15 years, handling advertising and sales promotion work, and he has also done special promotional work for the U. S. Steel Corporation. Since 1936 he has been manager of advertising and public relations for Carrier Corporation, Syracuse, N. Y.

Mr. Bowe organized the Advertising Club of Schenectady, and has been a speaker before advertising and sales meetings and a contributor to merchandising magazines. He is a professional member of Alpha Delta Sigma, honorary advertising fraternity, and was elected to the Board of Directors of the National Industrial Advertisers Association in 1942.

* Mr. Bowe's paper was read by W. G. Hillen, manager of Carrier International Division.

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greatly, his ally—advertising—can be used today to influence sales in the highly competitive postwar period.

We must insure our title to the bigger business of the future. As has been so often stated, it is not too easy to accumulate funds today for advertising tomorrow, but we can advertise today for the cumulative buying power that will appear later.

I cannot agree with those who state that the average company today has "nothing to sell." It has its name, its reputation, its contribution to the war effort—all of which can bulk heavily in preserving or establishing leadership that will be needed so urgently the first day after victory. For when the "buyers' market" returns, those who have established themselves in the minds of potential customers will reap the benefits.

Advertising today is the means of preparing for peacetime sales contacts. The real problem is—how best to utilize advertising for that all-important job.

ASSETS TO STRESS

At Carrier Corporation, we have asked ourselves two questions: First, what do we have to "sell" instead of products, for the duration? And, second, how can we place our advertising message before the people who will be our future customers? Answers to these questions involve not only the question of copy theme and treatment, but that of media.

As the pioneer company in the field of air conditioning and refrigeration, Carrier, we know, has at least four assets that will be of distinct value in gaining future customers and prospects. We have engineering leadership in the field, leadership that is widely acknowledged; we have management which, although engaged 100 per cent in war production, is postwar-minded; we have a manufacturing organization which is becoming better every day because of the pressure of war production; and we have a seasoned distributing organization.

These facts all indicate that we can maintain our leading place in the industry. But we recognize that the postwar situation will be highly competitive. The demand for air conditioning, both for comfort and as a production tool, will be great. And we have resolved not to lose touch with those who will be our customers when "V" day comes.

METHODS ADOPTED

In our own case, we have revamped both our peacetime schedule and our copy slant. While trade paper advertising has not been curtailed, a fairly drastic realignment of media has taken place. Instead of using media which offer immediate sales prospects, as was once the case, our schedule looks more in the direction of those who will be customers at some time in the future, as yet unknown.

Copy in national media has been slanted completely away from product

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sales and toward the story of Carrier's *service* to the nation at war. Throughout, we have endeavored to talk in terms of people and of the things that are near and dear to their hearts. Below are some recent Carrier headlines which illustrate this point:

"Vermont Turkey on the Indian Ocean" (a Thanksgiving-time advertisement showing sailors eating turkey thousands of miles from home, as the result of Carrier refrigeration).

"So Others May Live" (A hospital scene showing a blood donor. This presents the importance of refrigeration in the preservation and shipment of plasma).

"Air Conditioning Makes It Hot 'Upstairs'" (A soldier explains to some boys that the split-second timing of fuses in anti-aircraft shells is made deadly accurate by air conditioning).

These examples illustrate our effort to humanize our rather highly technical equipment and to associate it with a favorable symbol—namely, service in the war effort and similar service tomorrow.

AIDING THE WAR EFFORT

In another category, we have utilized a portion of our advertising appropriation for advertising which we hope will speed war production and stimulate bond sales; and the story of this particular phase of our advertising activities may be of more than passing interest since there is, I believe, a definite moral attached to it.

One of our factory workers, Arthur Hocking, wrote to his fellow employees through our employee publication. Hocking had just lost his only son in the war. He wrote "We keep hearing and talking about the war lasting for years. *That* sort of thinking might keep *anyone* from hurrying." And he suggested a new slogan for Carrier, "Let's Get It Over—Quick!"

When our management read the letter, it asked Hocking for permission to reprint it in a selected group of newspapers, feeling that his philosophy, and its beautifully simple expression, might contribute to the war effort were the letter more widely read.

We wrote a heading "You've Never Heard of Art Hocking—But He's Worth Listening To," displayed the letter in as large a reproduction as possible, put the company name at the bottom of the page and took full-page space in three New York newspapers. That was all. No plug for Carrier or its products. Just a message that we hoped would move others as much as it had moved us.

Within a few hours after the letter appeared, the telephone calls and telegrams started to come in. We promptly decided to increase the schedule to include leading papers in various war production centers. That was in November—and the daily mail is still bringing in comments and requests for reproductions.

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Manufacturers (including some of our competitors), schools, shipyards and banks requested reproductions for posting. The Associated Press sent the complete letter over its wires. Radio commentators read it. The OWI dramatized it in a movie short.

Carrier has made new friends as a result of this letter. That is true. But the important thing is that we were able to make a contribution to the production effort and to war bond sales, over and above our routine activities.

Perhaps there is a moral for all of us in the fact that this heartfelt expression of a factory worker received such wide acceptance. There must be countless men and women on American production lines today who are thinking straight and who have expressed themselves on the victory effort. Believe me, the public will read what they have to say.

Today, advertising goes far beyond the realm of mere product sales. It is a means of accelerating war production. It has proved invaluable in selling war bonds. It is being used to build and retain company leadership in the public mind.

In the vast field of our relations with the public, advertising is one of our most useful tools. This is true today in wartime. It will remain so tomorrow, after victory.

* * * * * *

Mr. Hillen: I should like to add just a word about export advertising. There are restrictions on the domestic economy; but so far as export is concerned, the ban is practically complete. Therefore the problems are multiplied for us—both the problem of what to advertise and the problem of how to keep the distributing organization together.

We all know that there are many dollars dammed up abroad because of the purchases which this country has been making and the fact that the people over there cannot buy from us in return. Also, there is a belief that after the war there will be a definite attempt made to industrialize many of the countries abroad; some efforts are being made along those lines today in Latin America.

If we are to have free trade eventually, we shall have to buy as well as sell. Therefore, this question arises: Are pressure groups in this country going to force us back to tariff and isolation or shall we really understand that we can be prosperous only when the rest of the world is prosperous?

Carrier believes that this foreign trade will be important in the postwar period, so Carrier has stepped up its export advertising program for 1943 to twice what it was last year. The first type of advertisement we are running stresses Carrier's work in the present war effort—for instance, we have a headline, "Working for Victory." The second presents the necessity for maintenance of present equipment because of difficulties of replacement. The third

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tells how research conducted to aid the war effort will improve production after the war.

And in the export field the government has not only cooperated with us; it has actually urged us to increase our advertising.

Question: What are you doing to retain your distributing organization during this war period?

Mr. Hillen: Abroad we are facing a very serious problem; but, fortunately, many of our distributors there are able to engage in other types of activities. With these activities and with service work, we think they are going to pull through.

Chairman Buckley: Do you want to say anything about your departure from Japan? Can you mention any impressions you gained?

Mr. Hillen: Ambassador Grew's book, *Report from Tokyo,* presents a very true picture. Let's not kid ourselves about the Japanese. They are a tough enemy, and we are going to have a struggle to win the war—which, of course, we shall do.

III. GOVERNMENT ATTITUDES TOWARD ADVERTISING

By JOHN H. MORSE
Economic Consultant
The Buchen Company
Chicago, Ill.

THERE is no single "government attitude" toward advertising, peacetime or wartime. There are a number of attitudes. And those held in high places are almost universally favorable.

In fact, from the time I joined the Department of Commerce two years ago until I left late last November, we had not been able to locate a single published statement against advertising made by anyone high enough to speak authoritatively for a government department, commission, or independent bureau during that period. Nor have I heard of any such statements since. Instead, the record is full of statements favorable to advertising. Many of them may be found in pages 11 to 70 of the December 21 issue of *Advertising Age,* especially on pages 64, 65 and 66. Also, the Bureau of Foreign and Domestic

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Commerce has issued a 30-page official bulletin, *How the Government Recognizes the Information Industry as an Essential Part of our Free Enterprise System and a Powerful Force for Good in Wartime*—a pamphlet which ends with reproduction of pictures shown at an exhibit of wartime advertising in the lobby of the Department of Commerce building during September, 1942.

On opening that exhibit, Wayne C. Taylor, Under Secretary of Commerce, said:

> Viewed in its entirety, the advertising displayed here is the kind of advertising that is urgently needed today and all during the war. It informs the public of the part it can play in helping win our fight for freedom. At the same time it builds for a better peace through keeping alive companies and brand names for that day when consumer goods will replace the machines of war.
>
> This exhibit is a tangible affirmation of the Department's staunch belief in a strong, vigorous informative industry.

That is a government attitude toward advertising in wartime. Publicly expressed by the No. 2 man of a government department of cabinet rank, a man who sits in cabinet meetings in his chief's absence.

Many more statements could be quoted from men still in government service and from men who have left recently. So what is all the shooting about? What can one believe about government attitudes—please notice the plural—toward wartime advertising?

One of the most important things to remember in analyzing government attitudes toward advertising is that we should refrain from confusing the part with the whole—the attitude of part of government with the attitude of other parts of government, and the attitudes of particular men in government toward a part of advertising, or even toward a specific style of advertising. Then one must consider what particular law or laws, rules or regulations the government official who made the statement is sworn to interpret or to enforce. Third, one should keep in mind that there are plenty of people outside the government, as well as some inside, who think advertising a nuisance and an economic waste. Fourth, it should be remembered that there may be a good many taxpayers belaboring our guinea pig. And, last, especially if one is face to face with a bureaucrat, one should remember that he is human. He may be as he is today because he had a fight with his wife at the breakfast table or because his stomach ulcers are worse.

THE AUTHOR John H. Morse recently rejoined The Buchen Company, Chicago advertising agency, after spending two years in Washington, where he served as Chief of the Division of Commercial and Economic Information, Bureau of Foreign and Domestic Commerce, and editor-in-chief of the Department of Commerce publications: *Domestic Commerce, Foreign Commerce Weekly,* and *Survey of Current Business.*

Mr. Morse is a graduate of the College of Commerce, University of Illinois, and served as Associate Professor of Economics, Business Administration, and Sociology at Hillsdale College and the University of Nevada. He joined The Buchen Company in 1924 and was vice president of the firm when he was selected for the Department of Commerce post. In his present work as economic consultant, he is concerned particularly with the field of postwar planning.

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Perhaps if we took time to consider more calmly what we offhandedly view as attacks on advertising, and examined them from the perspectives just enumerated, we should not see so many sinister influences at work.

BUSINESS AGAINST BUSINESS

An example or two might help to illustrate this. In a lead article on Page 11 of the December 21 issue of *Advertising Age*, to which I previously referred, are these opening paragraphs:

> In the federal courtroom at Lexington, Ky., on Aug. 8, 1941, an angry lawyer jumped to his feet. "It seems rather apparent that the government does not like advertising," he shouted.
>
> The speaker was Major L. P. McLendon, chief counsel for R. J. Reynolds Tobacco Company, arguing his client's case in the Department of Justice action against major tobacco companies.

Here is a public statement from Thurman Arnold, Assistant Attorney General in charge of the Anti-trust Division of the Department of Justice:

> The Anti-trust Division has nothing to do with advertising as such. The only reason we have had to take cognizance of advertising at times is that the Anti-trust Division tries to prevent the unreasonable and coercive use of organized power and advertising that is sometimes one of the weapons which an organization uses to destroy a free market. . . . It is important to remember that advertising to convince the public is never in itself a violation of the anti-trust laws. As for advertising in general, I am in favor of it.

Let us examine those apparent inconsistencies. Mr. Arnold is hired by the Administration, and paid by us, to enforce a loosely drawn law that was passed in the horse-and-buggy days by a Republican Congress, and signed by a Republican president, Benjamin Harrison. That law is more than half a century old.

It is somewhat doubtful whether Mr. Arnold or any of his bright young men started that suit on their own initiative. The Anti-trust Division does not have to look for cases. In its testimony before the Appropriations Committee in January, 1940, we find that, in the first six months of that fiscal year, July 1, 1940, to June 30, 1941, 2,172 complaints of violations of the anti-trust laws were made to the Division.

If some figures from a previous analysis held true, 85 per cent of those (more than 1,800) were made by business against business. At the same hearing, among other witnesses, was an official of the American Farm Bureau Federation, who asked the Appropriations Committee to increase the amount allowed the Anti-trust Division sufficiently to permit the Division to investigate, and if it had a chance to win, to start suits covering 24 broad classifications of farm products, marketing organizations of farm products, and goods bought by farmers.

I think we can reasonably imagine this situation. Here is the law, wide open to interpretations. Here's a complaint against certain firms. Congress has thought enough of it to appropriate money to go after the alleged rascals. The Administration apparently believes it can get more votes by baiting business than by leaving it alone. It is up to the advertising men to produce the best case possible.

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In fact, in a discussion over one proposed anti-trust suit, I heard the argument advanced that the Division had been given money to do a certain job, and that, to hold their positions, the boys just had to follow through.

I am not arguing that some cases are not initiated in government. Nor do I suggest that no highly ingenious arguments are used to make out a case. We are not here to review the broad and chaotic field of anti-trust legislation and action. But I do not think that there is any real inconsistency in Mr. Arnold's statement of his beliefs about advertising in general and the attempt of members of his Division to prove that, in this one instance, advertising was *used* as one of several means of trying to restrain trade.

But too many people in business take the part for the whole, mutter in their beards about "that guy Arnold" and see him conducting a sinister planned campaign against advertising. Instead of that, business might better look askance at Mr. Arnold's reiterated beliefs about freedom of enterprise and freedom of individual initiative. He is so reactionary on that score that it often seems that he is pleading for the wild and chaotic freedom of commerce which was largely responsible for the first national curb on commerce, the Constitution of the United States.

LEON HENDERSON'S ATTITUDE

Examples could be multiplied. Sometimes one runs across men in OPA who are violently opposed to all advertising, who have flatly turned down requests for the inclusion of advertising in a price ceiling. What did Leon Henderson say about that? I quote from a statement made on May 23, 1942:

> So far in the price ceilings we have fixed, advertising has not even been considered as a major cost element. If some industry whose prices were under consideration did urge increased advertising costs as the basis of challenging a particular price ceiling, we would, of course, be required to look into the question.
>
> But I can rest on the statement I made in my testimony before the House Banking and Currency Committee, and have repeated since, that our policy would be, as a matter of course, to take normal selling and advertising costs into account. . . . Advertising performs a useful economic function; and, if I have a point of view, it is that under the sort of expanding economy I would like to see there should be more of it—that is, more of the right kind.

That is a government viewpoint, as sound a viewpoint as one could ask for in such a troubled world. Maybe some one of Mr. Henderson's neophytes has ruled against you on an advertising cost; maybe he expressed himself as against all advertising. Look at the matter from the five angles which I mentioned earlier.

If you cannot argue him out of his idea, go over his head. There is practically always someone over everyone in government, and you can probably find a way to get to him. The higher you go, the more favorable opinions of advertising you will probably hear.

DISTRUST OF GOVERNMENT ATTITUDE

But you do not trust Henderson's or Arnold's statements, you say. There is the real rub. But why not trust these men? Because they are part of a plot

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to take over the government? Every political party has such a plot. Almost every politician and person in government has some kind of plot to keep himself in his job and get a better one.

The same thing holds true in business. And the difference of opinions on how to run the country are even more varied and dissimilar in Washington than outside. Only one thread runs through all of them: The person currently proposing a plan or an idea wishes to get a good job out of it.

How widespread this distrust of the government attitude toward advertising is can perhaps be best shown by another illustration: During the course of the case against the tobacco companies, some of us in the Department of Commerce decided that advertising was getting the worst of the presentation and that maybe we ought to teach a few people in Washington a bit about the subject. We looked around for a good sounding board. The first good opportunity to acquire one which appeared was an invitation to the Director of the Bureau of Foreign and Domestic Commerce, C. L. Wilson, to speak at the fall meeting of the Pacific Coast Advertising Association on October 24, 1941.

Mr. Wilson really pulled out all the stops and expressed a government attitude toward advertising that should have made everyone interested in the field stand up and cheer. No noise. In fact, the next June, June of 1942, almost a year later after far more and far more favorable governmental attitudes had been publicly recorded than—I think it is not too much to say—in all previous history, that same advertising association published a book entitled *Advertising's Job in This War.* Paragraph 7, Page 3, stated, "For many months government spokesmen have challenged advertising's economic value."

So what's the use? That book appeared just about the time that the President gave advertising a favorable endorsement in his letter to James A. Welch, president of the Advertising Federation of America.

OTHER GOVERNMENT STATEMENTS

Secretary Morgenthau also took a very favorable stand on advertising, using one of the few words that would briefly describe his attitude. That word was "reasonable." From the reaction that reached us practically everyone thought he said, "No more advertising." Now you can go to the Treasury and obtain an opinion before you spend your money, and every allowance of which I have ever heard has been a very reasonable one.

The Army, the Navy, the War Production Board, the Maritime Commission have taken a favorable attitude toward advertising. Despite the theorists here and there, the lads who mix their ideas of social reform and economic fact, a favorable attitude toward advertising is taken not only by a large number of government men drawn from business, but also by many people in regular agencies.

I do not wish to paint too much sweetness and light into the picture, but it did seem in Washington much of the time that the government attitudes to-

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ward advertising were more friendly, more appreciative of its power and usefulness and possibilities than was the general attitude outside.

There was a growing recognition that we live in a stimulated-demand economy. A large part of the stimulation that enabled us to market large quantities of goods quickly, the kind of marketing that an industrial nation needs, came from the fast, cheap, wide distribution of stimulating information about products through advertising.

There is probably a wider appreciation in government than in business of the fact that advertising is chiefly responsible for the vehicles which carry information from government to citizens these days: 100 per cent responsible for radio—for all radio free time is actually paid for by money from sponsored time; from 65 to 75 per cent responsible for low-cost magazines and newspapers. And it will be a sorry day for business when it reduces its advertising to the point where its channels of communication to the people have to fold up.

ATTITUDE TOWARD COPY

So much for the general attitudes of government toward advertising. As to the present government's attitude towards advertising copy, there are probably as many attitudes as there are people in government. But the most important one, I believe, is the one held by the Office of War Information, since all public expressions by men important enough to have their statements carefully weighed, with the possible exception of the President, must now clear through that organization.

I asked Ken Dyke, Chief of the OWI's Bureau of Campaigns, to send me a statement on this subject embodying the views of his organization. The statement follows:

> There still seems to be a general feeling that the place of the advertising man or woman, and of advertising itself, has been *ignored* by the government—that government is *opposed* to advertising and proposes, under the war emergency, to *eliminate* it as part of a deep-laid plot against business. If any of you still share that belief, may I impress upon you that, in my opinion, nothing could be *farther* from the truth. And that, I assure you, takes into full consideration the fact that there are in government, *as there are in business*, men who are not sold on advertising, its functions, or its true value in the economic scheme.
>
> Few of us stop to consider that, up until the war, most government people, outside of the Department of Commerce, had only an academic knowledge of advertising—gleaned from post-graduate courses in higher economics—and colored, quite naturally, by the fact that in the main Washington's contacts with advertising have generally had a *negative perspective*. They have become accustomed to dealing with *violations* of advertising practice—actions of the Federal Trade Commission, complaints of the Better Business Bureau, evasions or alleged evasions of Food and Drug legislation. Is it so unnatural that Washington ended up by confusing the *misuse* of advertising and its effective, highly profitable application to *unworthy* ends with the vehicle itself? I don't think so.
>
> Now, along comes the war. Practically every government agency and department head is suddenly confronted with innumerable problems requiring skilled, effective interpretation to the public. The time-honored methods of grinding out mimeographed press releases and making a few speeches just *didn't* accomplish the objectives. Today, government people are turning to advertising techniques and to advertising people, appreciating, I am sure, perhaps for the first time, that in that direction lies a satisfactory

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solution to many of the public relations and informational problems which surround every war effort activity.

Today these men throughout government are seeing advertising *work constructively* in accomplishing *their* objectives. They are having the experience of working *with* advertising people. And I assure you that this is the most important foundation that could ever be laid toward breaking down a major part of the objections that any of them may still harbor against advertising in theory.

So, point number one to remember: Stop worrying about government's attitude toward advertising. I haven't discovered that it has any *attitude*—other than that of *needing* and *welcoming with open arms* any sound, constructive, sincere assistance that advertising people and advertisers *can* and *will* render in helping to increase the understanding of our people of *what we're fighting for* and *what each of us must do* to speed the day of victory.

National advertisers and retail advertisers, in their own copy and layouts were, of course, quick to reflect the advent of the war as a major emotional interest of their customers and prospects. There have been innumerable campaigns of outstanding significance in their contribution to the war effort—while still performing their primary task of selling merchandise and keeping the name of the product, company, or service favorable in the minds of the public.

But, frankly, if you review the country's advertising regularly and systematically, you cannot help being somewhat appalled at the high percentage of advertisers whose entire conception of wartime advertising seems to fall into the "Look-what-*we're*-doing-to-win-the-war" category. After about six repetitions, this wears pretty thin, even to the authors. Zooming bombers tied up with cakes of soap, keep clean for victory; Arrow-Collar-like tank corps boys winning the war, thanks to Zilch's Bolts and Nuts; and the endless institutional campaigns glorifying the fact that when better war goods are made, Clambake, Inc., will make them. Don't misunderstand me. Much wartime advertising is good, but it seems to me that too much of it is somewhat unjustified flag-waving to the tune of the cash register.

There has been too much of merely playing up industry's achievements which, notable as they may be, are by no means the whole story. I don't blame industry for wanting to keep its name before the public. I think they should do so on every opportunity. But I am afraid that, if we merely play up our war production achievements, we are going to create a false impression with Mr. and Mrs. Public.

There is more to it than that. In the coming months we've got to tighten our belts as never before: eat less meat, use less transportation facilities, buy more bonds. None of us yet realize this as *fully* and as *personally* as we should. Yet these ideas must be put across—*what* we must give up and do, *why* this is necessary, and *how* our sacrifices are essential to total victory.

Here are copy themes galore. Here also are messages of vital importance to many industries, if their position and their problems with regard to supplying their old markets as well as supplying war needs are to be fully and sympathetically understood.

For years, and rightfully so, we of the advertising business have prided ourselves on the fact that advertising has been one of the dominant constructive influences on the American way of life, that advertising has been a major factor in patterning our people's habits of action and thinking. We have claimed for it top honor in contributing to the position of the American standard of living as the envy of the whole world.

Advertising in wartime has an infinitely greater responsibility, an opportunity unequaled in its long and illustrious career. It must do its share, as only it can, to bring to America a fuller understanding, a fuller realization of what all-out war means. It must help, educate, and inspire. It must, if you will, set an example by its own character and content, in war as it does in peace, that it may play a constructive part in moulding public opinion.

To accomplish this, we people, whether in private enterprise or in government, who are concerned with advertising must know our product, our objectives—and try to achieve them in an orderly and effective fashion.

I urge you to plan carefully for the next year, which well may be the critical year of the war, that you give most serious consideration as to how your advertising or your medium best can perform a wartime service in its specific field.

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During wartime, advertising has a harder job to do, if you want to put it that way, for we are selling in reverse. First, instead of persuading people to buy goods and services, our job in the main is to get people to give up goods, services, and conveniences—large and small—to which they long have been accustomed.

Second, instead of painting a picture of how goods fit into the lives of individual consumers we have the harder job of showing how the sacrifices of individual consumers fit into the national war effort picture: of how conserving tires or eating less meat relieve serious and critical strains on transportation and production; how such action can aid in keeping up the efficiency of our fighting men; how it can add to the quantity and quality of productive man-hours in factories; how it can aid the use of priceless and irreplaceable transport equipment in the most effective manner.

In other words, we must help the public to understand that their individual sacrifices are merely ways of sharing with their fellow citizens, to the end that the victory will be insured and the time of victory hastened. You'll grant this reverse job is a tough one.

Third, the job of getting action is a tougher one than persuading people to buy goods. Here we must overcome consumer resistance to giving up amenities to which they are accustomed. Here we must get them to make efforts and engage in action which often is unpleasant.

Moreover, we must build up the driving force of a great cohesive public opinion which will create action on the part of every man, woman and child. We must take it into the great cities and into the grass roots. We must get it down to Joe Doak.

Notice please that the problem is tougher but that its essential elements are identical with the tasks involved in selling goods and services. That is why I say there is a unique job for advertising to do in the war effort—unique in that more publicity can't do it all. Advertising's control of space and message and its repetitive ability give it unique usefulness.

Men do not fight and work for material things. They fight and work for ideas—pictures in their minds and feelings in their hearts. The ideas of Jefferson in America, and Voltaire and Rousseau, gave birth to the French Revolution. Old Tom Paine's pamphlets were of tremendous influence in our own struggle for independence.

What if these men had possessed modern media and techniques of communication to supplement their own efforts in getting their words to the masses? What if Robert Morris, staking his own fortune on financing the Revolution, had been aided by a modern Treasury war bond and stamp campaign?

Our modern tools for reaching the humblest citizen are tremendous in their power. I like the title of J. B. Priestley's book on wartime democracy in England, *Out of the People*, for out of the people is where victory alone can come. It is our job as advertisers to tell the people how they can fashion victory out of their daily lives and actions —the only road to victory. It's a big job. Will you help?

* * * * * *

Question: Suppose a company's advertising has two objectives: first, to maintain the home front and so help win the war; second, to insure continued leadership in its field after the war. Does the Treasury consider both types a part of expenses? And how do the Army and Navy feel about the question?

Mr. Weddell: My understanding is that a company engaged in war production is permitted to charge a reasonable amount of advertising against expenses, provided it is not attempting to establish a reputation it has never possessed or to open new markets.

Mr. Morse: That word "reasonable" has caused more trouble than any other word in the dictionary. In a single industry there may be anywhere from five to 50 types of advertising appropriations, each based on a different percentage and a different method of budgeting; yet each one may be reasonable in view of the competitive position of the firm. In one case the Treasury even

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allowed an appropriation to be increased from $50,000 to $1,500,000, because the concern would need a big market after the war. The Federal Trade Commission has issued some interpretations which may be helpful in this matter.

Conferee: That covers the Treasury. But I am still worried about the other government departments.

Mr. Morse: We have always felt that an Army and Navy officer is justified in being careful about allowing advertising expenses because he may have to face a Congressional investigating committee later. However, both departments have been allowing some advertising costs.

Conferee: Does that apply to renegotiation too?

Mr. Morse: According to reports reaching us, the renegotiation committees are allowing some advertising expenditures. Any business man who is worried about renegotiation should see his price-adjustment committee and ask for a statement of its attitude. He should also get a ruling from the Treasury before he starts advertising. It will be a reasonable one.

I don't think it is necessary for business to be afraid of its own government. Go down and slug it out with them if you have to. Or go down and sell, if you have to sell.

IV. AN ADVERTISING PROGRAM FOR CIVILIAN INDUSTRY

By E. L. SCHNADIG
President
Chicago Mail Order Company
Chicago, Ill.

MARKETING functions may not be normal today—but it is normal for people to want the necessities of life and for people with money to want to buy goods; and money is today more plentiful in a broader and deeper market than ever before.

Cooperation will win this war. We can cooperate for peacetime production efficiency as well as for wartime production efficiency, to the advantage of both.

One has to be careful to keep discussions of this sort out of the realm of the speculative—one has to deal with the facts of the situation—and the plain fact is that the worker needs and wants goods. He does not comprehend why

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he should be denied the fruits of his labor. That is not his fault—nor does it reflect upon his patriotism.

Our attitude in the past is best illustrated by that classic letter supposedly written by an American to a Russian emigrée resident in New York: "Unless you become a good consumer, you will be told to go back to Russia, because the first duty of a good American is to consume even unto death. You must spend your days consuming: buying clothes, getting your hair waved, sending flowers and books (if you haven't a friend who likes flowers . . . the florists will provide one anywhere in the United States), exchanging the old radio for a new one, drinking milk to reduce, and drinking more milk to fatten. In your leisure moments, you may play bridge, ski, travel, skate, go to the six-day bicycle races . . . or take a metabolism test. At night, you may relax. Then all you have to do is go to the theater or the movies. The movies are our third largest industry, and you couldn't let them down. While you consume for Shirley Temple by Eastern Standard Time, she sleeps; but, when you sleep, she awakens and consumes for you by Pacific Time. Thus, like the True Church, you sleep and graze at once. . . . And what's the result? The highest standard of living in the world!"

THE NEED FOR CIVILIAN GOODS

The plain fact is that Americans have not been conditioned to think in any other terms than those of supplying their needs and desires. We cannot get the best productive effort out of every working man by suddenly upsetting his habits of thought—by denying the "have nots" entrance into the promised land.

The peacetime products distributor recognizes that he has obligations to the public to protect the investment of thought, energy, and money which his business represents. The waste inherent in war activity neither suggests nor justifies added waste just for the sake of making the medicine even more bitter than it now is. There is hardship enough in war without trying to create more of it by bringing about unemployment. Many persons in the distributive trades cannot be employed in war work. Many companies in the distributive trades are not thought to possess the ability, the capital, and the manpower to participate in the war effort.

In the midst of war-price plenty, we must, if possible, avoid want and privation due to maladjustment in industry.

THE AUTHOR Edgar L. Schnadig has been with the Chicago Mail Order Company since 1917, and has served as president of the firm since 1939. Before that he was successively superintendent, advertising manager, assistant merchandise manager, assistant to the president, vice president in charge of sales, and executive vice president.

From 1910 to 1917 Mr. Schnadig was with the Barret Co., and from 1909-10 with Schwartzschild & Sulzberger.

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THE QUESTION OF INFLATION

We are committed, as a nation, to preventing inflation. Whether the essential ingredient of inflation is a *flight* from the dollar or a *fight* for what the dollar will bring is immaterial. To the man on the street, the inflation antidote consists of holding prices down—else why have ceilings? I submit that needless distribution curtailment of any kind does not help hold prices down—that it puts pressure on ceilings and causes needless rationing.

We know that in peacetime we can keep prices down by *broadening the market and lowering the cost.* In wartime we can do the same thing—and are obligated to do so.

The distributor is caught between the upper millstone of ceilings and the nether millstone of rising costs. Assuming he is operating efficiently, the only way he can avoid going out of business is to increase his market. The only way he can increase his market is to get more of the goods the public needs and sell them to those who want them. That statement ignores rationing—and purposely. Rationing is a device to correct the *effects* of a weakness. If, instead, we can correct the *weakness,* we can eliminate rationing.

Do I propose a pre-war marketing *status quo,* or am I expounding a business-as-usual program? That would not be wise, profound, or patriotic. Almost anyone knows that there were many weaknesses in the pre-war marketing setup —weaknesses and *abuses*—and, if there is one thing that is non-existent today in the distribution field, it is the opportunity to conduct business-as-usual.

DETERMINING AN ADVERTISING POLICY

What then is a proper advertising policy for the distributor of peacetime products? Before determining the advertising policy, he must satisfy himself that the production of the product or products distributed does not needlessly interfere with or detract from the war effort. Then he must be sure that what he plans to distribute is necessary to the maintenance of the body and soul—to the morale, if you will—of the prospective purchaser.

Having done that, he must set out to do the most effective possible job, taking into account justified restrictions upon his right to do business and aiding in the clarification and elimination of unwarranted obstructions. That is a democratic process—this is a democratic country!

And now we are ready to advertise! Shall our advertising be a relentless quest for more sales, regardless of the service the product will render, regardless of the need for the product? In other words, shall we advertise to stimulate desire for things that interfere with or obstruct the war effort? No! We rule that out!

We shall advertise to serve our customers to their advantage in whatever way our customers measure that advantage. Recently most of the State Street stores in Chicago, sensing a customer desire, decided to stay open on Monday

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evenings. Would it have served any purpose if they had failed to advertise that fact in the papers and over the air? I think not, and customer response proved the service was appreciated. It is a wartime measure of distribution of peacetime goods.

For the most part, the Chicago Mail Order Company serves farmers and residents of rural districts and small towns. It is obvious that today mail order service meets a peculiar and essential need brought on by the scarcity of farm help, by the tire and gasoline situation, and by smaller inventories. We feel that it is patriotic and helpful to our customers to remind them of these facts in our advertising literature. On the other hand, we have eliminated certain expensive services that needlessly used labor, and have told our customers why. This has cost us sales, but we think it the right thing to do.

STRESSING QUALITY

In these times, when people have rather more money than usual, we tell them that buying better quality saves labor, materials, and transportation, because the better-quality item lasts longer. We tell them in our advertising literature to "Invest in the Best"; we tell them what is best and why and advise them to take care of whatever they buy. Similarly, we show them in other ways how they can save money by good shopping habits and urge them to use their savings to buy war bonds. Needless to say, as they buy better things, our average order goes up and we are aided in our absorption of high costs in the face of low ceilings. That keeps us in business and helps us to continue to render a needed service.

Wherever there is a need to advertise for traffic, we try to sell the things that are easiest to get, which can be obtained nearest home, which will render the greatest amount of service for the price paid, which utilize material and labor not required for the war effort. We realize that brand-name and institutional advertising is important. In a distribution business one cannot continue to advertise one's service after that service is no longer available, because a distributor is either in business or out of business. When he is out of business, he has no funds.

There have been some regrettable statements to the effect that the small manufacturers and the small distributors would have to fold up and like it—that they are expendable. If any economic force in America interferes with the war effort, we all agree that it is expendable. However, England has found ways of keeping its small fry—the backbone of commerce—in business. Conceivably, America can do likewise. Some small plants and small groups of plants are serving a useful war purpose; the others can and should continue to serve a useful peacetime purpose.

We must adopt an advertising policy which will help the small plants and small distributors in some reasonable manner. This need not be done at a

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profit; perhaps it will have to be done at a loss. "Wartime," says Rickheyser. "is a time for giving—not for getting."

FIVE-POINT PROGRAM

Summarizing, I suggest that the advertising policy of a company distributing peacetime production in wartime should be one which:

1. Casts aside self-interest and strives to serve the customer by helping him to buy wisely, and only what he needs.
2. Publicizes the relationship between spending and saving and the war effort.
3. Aims, within the framework of the war effort, to maintain employment for essential peacetime workers.
4. Aims to keep alive the spirit of commerce so that we do not sink into the depths of depression at the war's end.
5. Recognizes that "the efficient and economical distribution of essential merchandise is necessary to the maintenance of maximum war efficiency."

We will win this war! We have not begun to work. We have not yet put back of this job all the fire and enthusiasm, all the effort and energy of which we are capable. Is it not conceivable that the distributor of peacetime products has a place in the war effort? Is he not the public custodian of the *American way of life—the American standard of living?*

* * * * * *

Chairman Buckley: I wonder whether Mr. Weddell would like to comment? Mr. Schnadig made some reference to the English situation.

Mr. Weddell: The reference, I believe, was to the fact that England found ways to maintain small business. England has made every effort to do so, but the record to date shows that there has been considerable mortality among the retail dealers in England and among many of the small mills and factories. This is due, in some measure, to concentration rulings, but more to the fact that so much labor has been withdrawn from civilian work.

But it is perfectly true, as Mr. Schnadig suggests, that the British Government made every effort to see that every type of industry and business had an opportunity to continue.

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V. PROMOTING PEACETIME PRODUCTS IN WARTIME

By H. H. SIMMONS
Manager, Advertising and Sales Promotion
Crane Co.
Chicago, Ill.

WHILE our products may normally be divided into two main types, plumbing and heating equipment for the building industry, and valves and fittings for all industrial applications, I shall confine this discussion to the second group—our industrial products.

We belong to that class of manufacturers which is continuing to make the same products as in peacetime, and in tremendously increased volume, but which has very restricted markets under wartime regulations.

The establishment of advertising policies and objectives in this war period involves the same basic considerations as in any other period. Such factors as the character of the product, the extent of demand for that product, trends in connection with its use, the possible effect of technological developments on both the product and the markets, the competitive position of the company in its field, and many others have to be carefully studied and weighed. Obviously, there is no single formula which can fit all products and all companies, even in the relatively limited classification of heavy capital goods.

To illustrate this process of developing wartime policies and objectives from our own recent experience, I may point out that we must deal with certain known facts and certain unknowns which we have attempted to study in the light of the partial information available.

In the group of known facts are:

1. Our products—valves and fittings—are industrial staples. The market for them depends on two factors, the amount of new industrial construction and the standard of industrial operating activity, which largely determines the demand for repair and replacement items.

THE AUTHOR H. H. Simmons is a graduate engineer who has applied his technical training in the fields of publicity, advertising, and sales promotion of products used by industry. His more than 30 years of business experience have covered three major fields: business paper publishing, industrial agency service, and supervision of the advertising department of a large manufacturer.

For the past seven years, Mr. Simmons has directed the Crane Co.'s program of advertising, promotion, publicity, sales training, and related services. The distribution of this concern's varied staple lines through 125 branches and 500 wholesalers to almost every type of industry has required close study of markets and the use of practically all known devices for insuring a profitable sales volume.

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2. Present indications are for very heavy demand for such products from normal industrial markets when present restrictions are lifted.
3. The company has, for years, been the largest manufacturer in its line and has enjoyed an excellent reputation with buyers and specifiers.

Among the unknown factors are:

1. The exact extent and character of changes in piping equipment which may be brought about by developments that are being speeded up by the war effort.
2. The extent to which the personnel directly or indirectly responsible for purchasing such products will be changed by the time present restrictions are removed.

We have taken every available means to keep informed on technological changes and have repeatedly tested the company's recognition among direct buyers or specifiers, and also among the general public. This latter factor is important because, in addition to the distinctly industrial uses of valves and fittings, many of the products are used by the general public in residential applications and buildings of all types. Many people who are not strictly industrial have to use valves, therefore, and the changes in industrial personnel brought about by the war are placing many new people into positions of purchasing power.

As a result of careful study of the factors indicated above, we have established these dual objectives:

1. To maintain, and if possible improve, our position of leadership with the direct buyers and specifiers by rendering them the best possible service during the period when we cannot supply their demands.
2. To extend our recognition to a much larger audience as a safeguard against any changes brought about by technological developments or by whole shifts in buying personnel.

The first of these two objectives is being attained by the publication, distribution, and promotion of detailed literature designed to train new employees in piping installation and maintenance and to help old customers get better service and longer life from the equipment they now have. Repeated tests of the effectiveness of this material in the field have indicated clearly that this objective is at least being approached.

The second objective will, of course, take longer to attain, and we have only recently made a start. We are attempting to impress the general public with the fact that valves perform a service essential to the daily life of everyone and that Crane is the leader in the valve field.

The most interesting part of this program to me is the extent to which we are utilizing word-of-mouth advertising by the entire organization to support the printed advertising. This whole program was carefully discussed with the sales organization several months before it was launched. Suggestions were en-

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couraged and were received in large numbers. As members of the organization feel that they helped create this campaign, they have had great interest in its success. Detailed suggestions are being furnished them with each succeeding advertisement, indicating how the theme of that particular advertisement can be translated into typical casual conversations. Similarly, employees of the plants are also being drawn into this program.

To summarize: Our wartime advertising policy is to help existing users of our products get through the emergency with minimum allotments of new material and to create favorable impressions among current buyers, and possible future buyers, as a basis for any postwar sales effort.

VI. ADVERTISING IN WARTIME BRITAIN

By JUSTIN R. WEDDELL
Assistant to the President
Union Bag & Paper Corporation
New York, N. Y.

WHILE there are great differences, obvious differences, between England and America, in one respect the two countries are identical: The threat to our lives—our business lives and our own lives—is the same in both. The fact that England is presently under the gun and has been for years should not make us feel any safer, nor should we have any sense of complacency or feel that we have plenty of time merely because we have not heard the sound of bombs.

There is one point about advertising itself that I want to make—*the fact that it has existed and persisted in England is one of the greatest proofs of its vitality.* Advertising was sometimes thought of as a fifth wheel in England. But if there was ever a time when fifth wheels were being discarded, it was when the war came with all its crushing force. Yet, today, English advertising is continuing on a very substantial scale.

On the Continent during the '30's, advertising practices were largely borrowed from this country. As the Fascist idea took hold, advertising as we know it—that is, advertising of competitive goods in a free economy—was killed in one country after another, absolutely and automatically. It was choked off first in Germany, then in Italy, then in Spain, remaining only in those

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countries bordering the Atlantic from France to Norway, and in Sweden and Finland—all of which were democratic nations. Advertising persisted there until the countries were overrun; and then, of course, it died as a free enterprise. Only in England did it have enough strength to hold its position.

Advertising in England continued not only under the *threat* of war and all the psychological pressures that threat entailed, but despite the *fact* of war; in the face of bombing and destruction of cities; despite rationing and the almost complete destruction of normal trading; despite the difficulties of concentration, the elimination of active production by many plants; and despite the newsprint shortage, which was the first and most desperate problem that faced us.

THE NEWSPRINT SHORTAGE

All the newsprint that had been coming from the Norwegian countries, and much of that which had been coming from Canada, was cut off suddenly. Newspapers normally running 18 to 24 pages, some of them with two to three million circulation, had to come down to six and four pages. That, of course, cut down advertising space. Advertising, purely from a technical standpoint, faced the almost impossible situation of not having space to run in.

Rationing took place in advertising. The maximum amount of space available would be, let us say, two columns, eight inches, for everybody, and that had to be doled out fairly among various advertisers.

Press advertising fell off immediately at the outbreak of war. From Saturday, September 2, 1939, to Monday, September 4, it fell to just about 20 per cent of the volume the week previous. That drop took place through cancellations. It was a near blackout for advertising for several days. Then it bounced back to about 30 or 40 per cent.

But, of course, sponsored radio, which was rather a small segment of advertising in England, all of it coming from the Continent, was stopped at once.

The immediate pressure on the advertising business was relieved to a very large extent by government advertising, which started quickly and has continued ever since. It cushioned the shock to a degree.

THE AUTHOR Before taking his present post as assistant to the president of the Union Bag & Paper Corporation, Justin R. Weddell was in business in England for 11 years, serving as managing director of Erwin Wasey & Co., Ltd., from 1930 to 1939 and as managing director of N. W. Ayer & Son, Ltd., from 1939 to 1941.

Prior to that, Mr. Weddell had 20 years of varied business experience in the advertising agency field, the printing business, and the photo-engraving business in this country; and for two years he was advertising manager for the Firestone Tire & Rubber Company.

Mr. Weddell is an honorary life member of the American Chamber of Commerce in London and represents that Chamber in this country as National Councilor to the Chamber of Commerce in the United States.

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After three years of war, advertising in England retains approximately 50 to 60 per cent of its pre-war volume. The British Government is the largest single client in England. It advertises to the public, in paid space, the facts that the various ministries wish understood and the rules they wish followed.

Incidentally, these campaigns are placed through advertising agencies and must stand up against the ordinary competition of commercial advertisers. Government advertising receives no favors, except in an emergency.

So far as I have been able to judge, from letters received and from various reports and conversations, there are many valid reasons why advertising has continued in England when the nation's whole energies are bent on an all-out struggle to defend itself and to win this war. First, the government educational programs must be carried out. Second, trade names of companies must be maintained. (The President of the Board of Trade, speaking in Parliament about a year ago, stated that the government wished trade names to be maintained and would do everything possible to see that they were.)

A CASE HISTORY

I want to relate one case history of an industry that failed to realize the importance of advertising in wartime. Prior to the outbreak of war, the motor oil industries agreed that, in the event of war, they would stop advertising. The bulk of the motor oil business in England was divided between two leading companies, which concentrated on lubricating oil. The rest was divided among three or four companies whose principal business was the distribution of gasoline.

The two leading oil concerns had, by many years of consistent advertising and good merchandising, established a franchise covering, say, 60 per cent of the motor lubrication business.

But when their advertising stopped, their brand names faded gradually from the public mind. After three or four years, it is pretty hard to remember what your preference may have been. (The government requires that gasoline be sold without a brand name; but the regulation did not apply to oil.)

After the advertising was stopped, the leading oil companies realized (and I was told this before I left England) that when the war is over and advertising and marketing are resumed, those companies which had invested millions to establish their dominant position would find themselves on all fours with the firms which had made no comparable expenditure. In other words, at the time advertising is resumed, the dominant position which the two companies had earned will have been sacrificed.

I think that is logical reasoning. It is hopeless to expect the public to retain, over years of bombing and fighting, a preference for a brand name which has been allowed to die.

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Another reason for advertising is to maintain morale. It is heartening to read in English newspapers and magazines of goods to be sold in the ordinary way, often with no reference to the war. Life carries on.

Another reason is that it is necessary to maintain contact with the consuming public, particularly when people are shifting from one area to another in large numbers. London, incidentally, has lost some 33 per cent of its population to the provinces.

Another reason for advertising is the authentic selling reason. Many things in England are being *sold* by advertising today, regardless of war, rations, death, and taxes. For instance, the city of Hull, which has been bombed more than most cities, is advertising itself as a site for factories; and factories are going there because it is a very good port. A company which has made a special business of shipping under war conditions advertises for business just as it did in peacetime.

WHAT BRITISH EXPERIENCE SHOWS

The lesson to be learned from all this is that advertising can "take the rap" and continue. It is not a fifth wheel. It has become an integral part of England's war effort, of England's information service to the public. Advertising can accept its sacrifice and still stand up.

Organizations of advertising men and women reduced to about 15 or 20 per cent of their strength were able to carry on as going concerns. Advertising men in England have continued their contribution to the life and trade of the country.

May I close with a quotation? Shortly after my return from England I was asked to give my impressions of the situation over there and at home. What I wrote then in *Printers' Ink* I think is still true:

> The call to advertising men is clear. Our country, with its free markets and democratic way of life, has opened up opportunities for us that no country in the world can parallel. Advertising in the United States is respected. It is a business and profession that men can be proud to serve. We have a part to play in the all-out effort that national safety is demanding today.
>
> If we narrow our vision to immediate gains and quick returns, we will deserve little. If we look beyond present conditions and opportunities and try to see the pattern of the future; if we use our influence, which is very real and very great, to create a steady, forward-looking program for business, we will deserve well.

* * * * * *

Question: Is there anything in England equivalent to the Advertising Council here?

Mr. Weddell: In England there is what is known as the Institute of Practitioners in Advertising, which has a council, headed, when last I heard, by Sir William Crawford. This council deals with all ministries on advertising questions.

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MARKETING SERIES NUMBER 52

POPULATION SHIFTS AND POSTWAR MARKETS

BY

GUSTAV EGLOFF
UNIVERSAL OIL PRODUCTS COMPANY

PHILIP M. HAUSER
BUREAU OF THE CENSUS

UNIVERSITY OF CALIFORNIA
MAR 26 1943
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PEACETIME VALUES FROM A WAR TECHNOLOGY

By GUSTAV EGLOFF
Director of Research
Universal Oil Products Company
and
President
American Institute of Chemists

IN a world at war one gets the impression that all forces are working solely for destruction. But when war ends, the new technology will convert the war effort to the pursuits of peace with an amazing speed. A tremendous increase in research and development has brought about the commercialization of processes which would have taken years to reach fruition under normal conditions. Out of the welter of the war effort will flow products that will increase man's effective span of life and his satisfaction in living.

Science has already prolonged man's life through germ-killing chemicals, new anaesthetics and synthetic vitamins. Scientific and technical research has increased our food supply in quantity and quality, and synthetic textiles have provided us with more beautiful, more durable and more sanitary clothing. Plastics will revolutionize the building arts, for indications are that many house-building and house-furnishing materials will be replaced by plastics as soon as the latter can be released for civilian use. Plastics, together with new and more efficient fuels, will also play a dominant part in our transportation systems.

Let us look at the transportation situation first. The petroleum industry will play a controlling part there. With airplanes hurtling through the air at more than 500 miles per hour, each with 1,000 or more passengers, all parts of the world will be less than 24 hours away from Chicago. Luxurious as the

THE AUTHOR Dr. Gustav Egloff, director of research, Universal Oil Products Company, Chicago, and president of the American Institute of Chemists, is the author of more than 500 articles and a dozen books relating to the petroleum industry. About 300 patents relating to the processing of petroleum oil, coal, shale oil and chemical derivatives of hydrocarbons have been issued to him in the United States and abroad.

Dr. Egloff was born in New York City, of Swiss parentage. He was graduated from Cornell University with an A.B. in 1912, and received a Ph.D. from Columbia University in 1916. After completing the work for his doctorate, he was employed by the U. S. Bureau of Mines, but resigned to become chief chemist with the Aetna Chemical Company producing toluol from petroleum. Since 1917, he has been director of research for Universal Oil Products Company, where he has been instrumental in developing some of the most outstanding processes for the refining and treating of crude oils, gasoline and natural gas.

Dr. Egloff is a member of the Permanent Council for World Petroleum Congresses. He has lectured throughout the United States, South America, and European countries and has given numerous radio addresses. He was voted one of the "1,000 Leading Men of Science" by the American Association for the Advancement of Science.

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Normandie and the *Queen Mary* were, the airships yet to come will operate with a smoothness and comfort unknown to travelers today, and low-cost air travel by jitney plane should be within the pocketbook of every American. In fact, the competitive impact of the new airplane industry on all other forms of transportation may be quite serious.

Increase in air travel will be made possible primarily by the capacity of the oil industry, increased by wartime demands, to produce 100- and higher-octane gasoline, and by the amazing developments in airplane design, material and construction that have been forced by the hard hand of war necessity.

Moreover, the same processes that produce 100-octane gasoline in almost unlimited quantities for airplane use will also make possible greatly improved fuel for automobiles—in fact, motorists will get at least 50 per cent more miles per gallon. And we may hazard a guess that there will be new pleasure in driving after the war because the design, speed, safety and beauty of the cars will be improved.

In the short span of 25 years, man has entirely revolutionized transportation through the design and construction of the automobile and airplane and through the development of petroleum products. And it is certain that we can, by careful study and experimentation, produce better rubber from petroleum than was ever obtained from trees or plants. Tires which will give 100,000 miles or more of trouble-free service are a reasonable expectation for the future.

For years we have been led to believe that world leadership in research rested squarely on Germany and that the United States was laggard. Even now statements to the effect that we are still behind Germany in research, development and commercialization are made from time to time. But, while there was an element of truth in these statements during World War I, when the United States was short of many necessary materials because of its reliance on Germany for pharmaceuticals, dyes, fine chemicals, potash, lenses, chemical glassware, instruments, etc., we are now completely independent of any country for these and other materials.

Then, again, prior to the last war, if one wanted to study chemistry, physics, mathematics or medicine, it was thought that one had to go to Germany. That day is also gone forever. In less than 25 years the United States has reached world leadership in research and has awakened to a miracle of scientific and technological development under our system of free enterprise.

Private initiative is responsible for America's world leadership in science and industry. The tremendous effort that is being put forth in the United States, the effort that will win the war, is the work of private initiative. The fact that many of nature's products have been unsatisfactory has stimulated man's inventive faculty, and that faculty has been fortified by the vision prevailing in our industries. Tremendous cooperation has been shown by industry in the United States, which has spent millions of dollars to develop basic ideas for the welfare of mankind. No industry stands alone in achievement; they are all interrelated through research.

The destructive nations' efforts to rule the world must be wiped out as

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surely as we must defeat the insect and bacterial hordes that prey upon us, and the research results that have formed the backbone of total mobilization toward that end, promise vast changes in our peacetime economy. A few highlights of the accomplishments will be considered here.

HEALTH ENGINEERING

Man's struggle to survive is ever-present. Today, he has either vanquished or domesticated large animal life, and our battle now is to overcome the ravages of rats, insect life and bacteria—it would seem that the smaller the scale of life, the more difficult it is to exterminate or control. Great strides in this direction have been made, but the ultimate solution is still far off. Increased tempo in research and experimentation along many fronts will ultimately present the remedy, and with the vastly improved tools man is constantly providing for himself, the end is certain to be favorable for mankind.

From the necessities that war has forced upon man have grown the scientific principles of health engineering so vital to man's well-being as a fighting force. The need for accurate knowledge of vast areas hitherto seldom visited by dwellers in temperate regions has been the motive force behind medical exploration of tropical territories that may well be carried over in the future development of our own hemisphere.

When it became necessary to provide troops with anaphylactic measures against tropical and sub-tropical diseases, the medical force needed accurate knowledge of the type of health dangers encountered; it had to provide means of preventing and curing malaria, cholera, typhus, hookworm, bubonic plague, sleeping sickness, dysentery and typhoid. Mosquitoes, rats, leeches, fleas, flukes, bats and a host of other disease-bearing or -spreading agents had to be studied and their control and extermination planned. Drugs of all types had to be ready to combat disease and to check infection.

In the Far Eastern and African campaigns, insects and infections have beset our armies. Our men came down with malaria and other diseases, among them dengue fever, dysentery, tropical ulcers and sores, as well as the bites of malarial mosquitoes and tropical spiders, some as large as crabs. There is a drainage of our soldiers' vigor in this pestilential atmosphere wherein they fight, eat and sleep but a few hundred miles from the Equator. As one eyewitness expressed it about the Buna campaign:

> . . . that every ounce seems to grow to 10 pounds when carried through a jungle through knee-deep mud. That means giving soldiers jungle equipment, including the lightest kinds of carbines, tropical uniforms, waterproof shoes, more efficient and lighter packs, as well as smaller mosquito nets.

What has research done to modify this type of torture and death to which our fighting forces are subjected? The methods of attack are chemical, physical, medical and engineering.

An indispensable tool in the study of man's health has been the microscope, discovered more than 300 years ago. Slow improvement had been made in this instrument until a few years ago, when a revolutionary principle was

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discovered through the use of the electron. This made possible a magnification of more than 200,000 times, compared to the 3,000 for the best previous microscope.

Anti-insect sprays, delousing, swamp drainage, felling of certain trees, sanitation, oil and chemical dust spreading, and other methods are used to keep our troops in fighting condition and will have great value industrially and agriculturally during peace.

A number of synthetic chemicals, such as the sulfa drugs, synthetic quinine, and synthetic vitamins are finding amazing uses on the fighting fronts. Where the World War I record was four deaths out of five from germ infection of abdominal wounds, the present record is one out of five. Quoting Howard Blakeslee:*

> On the 2,000-mile front, in all the war, only 1.5 per cent of the Russian wounded have died. That is slightly higher than the remarkable recovery rate at Pearl Harbor, 96 out of each 100. The report says the Russian recovery rate is 98.5 per cent of all wounded. The Russian rate is one-half of 1 per cent worse than the Guadalcanal miracle of 1 per cent of wounded dying.
>
> The Russians claim some new medical advances of their own. When plasma is made in America, the red blood cells are thrown away. The Russians report that they have made a process to use these cells to manufacture blood. Nerve sections taken from the dead have been successfully grafted into the wounded. The peritonea of animals, the inner lining of visceral cavities, have been used as living bandages for gaping wounds. It is claimed that cure is facilitated and that the scars are not so heavy.
>
> A compound that is not a vitamin yet has the blood-clotting effects of Vitamin K is in use. The Russians say they have found a method to obtain thrombin in thousands of quarts volume. Thrombin is a natural clotting substance in blood.

The latest sulfa drugs which are working wonders against infection and disease are sulfathiazole, sulfapyridine, sulfaguanidine and succinyl sulfathiazole, which have been synthesized for specific diseases. Each soldier's kit contains first aid doses of sulfanilimide to be used to check infection at the time the wound is received.

Pentothal, which is injected intravenously, is one of the very best of the newer anaesthetics. Unlike ether and the hydrocarbon gases, it is non-explosive. In addition, the equipment necessary for its administration is simple—a shot in the arm is all it takes to put one to sleep.

Chemicals highly useful in destroying infections are created by bacteria, soil molds and molds found in the intestines of animals or insects. Penicillin, a new drug produced in soil mold, is about 100 times as effective as sulfanilimide in combatting infection, and far less toxic. Gramacidin from soil bacteria has been found to be a powerful germicide for both pneumococci and streptococci, two germs extremely dangerous to man.

Nor can one pass public health without mention of the vitamins. Many diseases of baffling nature have been due to dietary deficiencies and have been cured upon treatment with the proper vitamins. New methods of production, mainly chemical synthesis, have made vitamins available—Vitamin C (ascorbic acid) and Vitamin B_1 (thiamin chloride) are probably the most outstanding

* *The New York Times*, January 10, 1943.

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examples. In 1933, the cost of Vitamin C was $213 per ounce; in June, 1942, it had fallen to $1.65 per ounce. Vitamin B_1, sold for $8,000 per ounce in 1935, is now marketed at $15 per ounce. Because of the huge reductions in price, these vitamins, as well as several others, can be used to fortify various foods, giving them protective factors never before included in their manufacture.

FOOD

Food plays the dominating role in the life of all nations, and now that rationing has hit us, our interest in the subject is keener. Research has made available foods relatively new to our civilization. Not only have new varieties been produced; treatment with chemicals has increased the size of fruits and vegetables and improved their vitamin content.

Here, too, petroleum plays a role. When oil is cracked to produce motor fuel, olefinic gases are by-products. These gases, such as ethylene, propylene and butylenes, hasten fruit ripening and growth. Ethylene was first used for the purpose of ripening oranges rapidly (a tent was placed over each tree, or the unripe fruit was stored in a room, and small percentages of ethylene were added). Where this method of ripening is used, the fruits can be shipped without loss due to rotting. The growth of potatoes has been stimulated by ethylene and propylene—it has been reported that the speed of growth has been increased 100 per cent when the seedlings have been treated with ethylene, and that the treated potatoes are larger and more numerous and contain higher percentages of Vitamin C.

The Russians have shown that butylene gas has a stimulating effect on the speed of growth of trees, such as the apple, apricot, pear, cherry, plum, peach, and walnut, bringing them to fruition far faster than normal. Thus in parts of Russia where the growth season is too short to allow the trees to come to full maturity, butylene is used to hasten the growth process. The method of treating a tree is as follows: It is enclosed in a tent for two weeks before the normal or desired leafing, i.e., the start of the growth cycle, and butylene is passed in concentrations of one part in 100,000 parts of air at temperatures between 69 and 100°F. for a period of one to two hours. Small heaters are probably used to raise and maintain the temperature of the air around the tree so as to obtain maximum effects of the growth-inducing hydrocarbon, butylene.

Acetylene, so important in the production of synthetic rubber, plastics and other materials, is being used in Australia to increase the growth of pineapple plants. Calcium carbide derived from coal and limestone is placed in the heart of the plant, and rain or dew reacts with it to produce acetylene in sufficient quantities to increase the growth of the pineapples.

In California, fruit orchards are fertilized by ammonia added to the irrigation water, and the process has improved productivity markedly. It may be of interest that this ammonia is produced from the nitrogen in the air, and the hydrogen from cracking of petroleum.

The autumn crocus contains a yellow powder called colchicine, which,

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when applied to seeds, leaves or buds of a plant increases growth of fruits and vegetables to double their normal size. Colchicine also gives rise to new varieties of fruits and vegetables never known before. It acts at a very critical point in the germination of the seeds: When cell division is ready to take place, the cell does not divide, and the specie-bearing chromosomes remain in the seed in double the number, giving rise to new species of fruits and vegetables.

Shipping of food supplies to the United States fighting men abroad is in a critical situation because of lack of transportation. To overcome this obstacle, a number of processes for dehydrating foods and so cutting down their bulk and weight have been developed.

"Quick freezing" of fruits, vegetables and meat has added materially to food supply, particularly in decentralized communities, and also conserves steel and tin in the form of cans. This development has great economic value for peace and war.

Indeed, developments already achieved present an almost incredible picture of our food supplies of the future. Obviously it will be possible to raise more food of higher nutritive quality on less acreage, with far less labor than is needed at present.

TEXTILES AND CLOTHING

From the time Marco Polo introduced the products of the silkworm into Europe in the 14th Century, silk has held leadership as a symbol of wealth. Now the silkworm's job is well-nigh finished, although silk will probably find a number of special uses. The research chemists have developed synthetic silks far superior to the best that the silkworm can provide. Rayon, produced primarily from wood and cotton linters, was one of the earliest of the silk substitutes, but the most striking development has been the commercial production of nylon. Nylon hosiery has at least 10 times the wearing quality of the best silk from the worm, and nylon is now replacing silk in parachutes and ammunition bags.

GLASS

For thousands of years the glass industries of the world made almost no progress. The only researches of moment were those that resulted in the addition of minerals to give beautiful colors to the windows of the world's cathedrals. But since World War I researches in the glass industry in this country have made amazing strides. In World War I, this country suffered from lack of the chemical glassware and lenses of Germany, which held leadership at that time, but we are now entirely independent of any foreign country for these products. We have developed new products from sand that are leaving their impact upon other industries in a competitive way, and the competition will be intensified in the peace period to come. Hard glass for laboratory use is now in mass production, and the product has found its way into everyday life where it is used for baking dishes and other heat-resisting utensils. In addition, the present war is bringing out the possibilities of substituting glass

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for steel, silk and cork in many cases. Use of glass fiber boards for heat insulation in fighting planes has saved 5,500,000 pounds of aluminum and other scarce lightweight metals, which can be used in building 250 Flying Fortresses. For electrical insulation, glass filaments are spun into a flameproof wire coating for use in heavy bombers. Glass foam is displacing cork in life preservers and lifeboats—unlike air-filled rubber floats, the glass foam type is not rendered useless by punctures, since when a bullet passes through only the cells in the immediate vicinity of its path are destroyed. One of the outstanding uses of spun glass in the present war is as a replacement for silk and gut in surgical sutures. Spun glass is also widely used as a fireproof textile.

Some of the newer optical glasses require no sand at all, but depend upon the rare earth elements, such as tantalum, tungsten and lanthanum. The glass made from these materials is highly satisfactory for use in aerial photography lenses, since it gives more sharply defined images at higher altitudes.

PLASTICS AND SYNTHETIC RUBBER

The plastics industry was founded years ago by J. W. Hyatt, an American. He was the first to work with cellulose nitrates and camphor as a plastic mass in an effort to find a substitute for the ivory in billiard balls. In general, however, the founding of the modern plastics industry occurred in 1907, when Dr. Leo H. Baekeland, in his laboratory in Yonkers, N. Y., produced the first phenol-formaldehyde products, commercially known as Bakelite. This American research was the stimulating force that brought the plastics industry to the important position it now holds in our war effort. World leadership in the plastics field belongs without question to the United States. One can be clothed from head to toe by plastics now available; one may live in a plastic house and be transported in vehicles largely made of plastics. There is no end to the variety of plastics that are potentially available and in the making.

These remarkable materials have at least 100,000 uses. Perhaps one of the most important at the moment is for the production of hoods for pilots and gun turrets on airplanes, where prolonged high visibility is so essential. One of the most important plastics is Plexiglass, made of methylmethacrylate. Because of its flexibility this material can be molded to any shape desired. Windows made of it afford clarity of vision and are practically shatter-proof.

It is to be expected that plastics will play a great part in the structure of the automobile of the future, and one may expect practically 100 per cent visibility in the new-type car. In the field plastics will be highly competitive with other types of structural materials.

Much has been accomplished in the United States in brightening life. housing and transportation by the use of plastics of every color. One may say that the period in which we are living is the renaissance of color. Many plastic products form excellent media in which the commercial artist and designer can express their art in home and business interiors. Current magazines are full of beautiful illustrations of radios, electric irons, telephones, and airplanes, many made of plastics.

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Moreover, color plays a definite role in the well-being of humanity and affects our capacity for work. While the possibilities of color effect from glasses and plastics have not been fully exploited, a number of manufacturing plants have worked out color schemes that raise the tempo of production and, at the same time, ease fatigue. Eyestrain particularly is, in general, an overlooked factor in well-being and productivity. Walls of dull gray, brilliant white and black machines contribute to accidents in many cases. The fatigue factor is also present in office work, and study should be given to the relation of color to the accuracy and the output of those engaged in mental activity.

In planning buildings, the architect has generally limited himself to a comparatively narrow color range—gray portland cement, red sandstone, and gray, red, and yellow bricks. Newer building plastics are available in colors as beautiful as those of the precious stones they simulate, and far more practical. By using plastics in slabs the architect could give us colorful buildings at low cost.

Thus one may expect that the new plastics will compete with building and window glasses and that both the plastic industry and the glass industry will be highly competitive with the paint and varnish industries.

Our natural rubber supplies have been shut off by the devastating attacks of the Japanese, who now control more than 95 per cent of the world's supply. Fortunately, however, science and research in the United States were not caught napping. For a matter of 20 years or so, long before the fall of the Far East, means of producing synthetic rubber have been available. The synthetic rubbers, Neoprene, Thiokol, and Ameripol, were in commercial production prior to the fall of the East Indies, and the "know how" of producing other rubbers, such as Buna-S and the butyl-type rubbers, was also available. The United States has all the raw material necessary to produce any quantity; it is now a question of materials for equipment and their fabrication. The present production schedule calls for 1,100,000 tons of synthetic rubber for the war effort.

Neoprene rubber is based upon acetylene, the same acetylene that induces plant growth and is the basis of a whole host of other products. Acetylene is one of the most important of all the hydrocarbons, and has been produced through the years almost entirely from coal and limestone in electrical furnaces. One of its primary uses has been in acetylene welding. Researches have been going on for years in an endeavor to use our vast natural gas and petroleum resources for the production of acetylene. There are a number of commercial units now under construction, one of which will produce acetylene at the rate of 75 tons a day, or 27,000 tons a year. It is believed that acetylene will be produced at a lower cost from processing our natural hydrocarbons than by the high-temperature electric furnace method. The natural gas industry in this country produced, in 1942, about 3,000,000,000,000 cubic feet of gaseous hydrocarbons, part of which could supply the whole world with acetylene and its derivatives.

Thiokol is manufactured from ethylene derived from the cracking of oil. chlorine and sulfur, whereas the Buna-S rubber is produced from styrene from

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coal and petroleum, and butadiene is derived from grain alcohol and petroleum. Butyl rubber is based upon the chemical reaction of isobutylene, butadiene or isoprene.

We are being geared to produce synthetic rubbers in the following tonnages:

	Tons per Year
Buna-S	845,000
Butyl	132,000
Neoprene	69,000
Thiokol	60,000

The world's natural rubber production for 1941 was 1,675,000 long tons, of which the United States imported 820,000 tons. With the tremendous number of airplanes, tanks, motor trucks, ships, trains, gun mountings, etc., the rubber demands are ever increasing, not alone for the fighting forces on the far-flung fronts, but for the necessary war work behind the lines. A statement appeared a few days ago that ground tanks were passé because American heavy guns were able to smash them. If this be so, then airplane tanks heavily armored for low-altitude flying should be the answer, and this will call for increased quantities of rubber. Medium-size tanks require 500 pounds of rubber and pontoon bridges more than 1,000 pounds. In a Flying Fortress the gasoline tank alone uses 500 pounds of bullet-sealing rubber, while large bombers require more than 1,200 pounds. A gas mask uses three-fourths of a pound; a battleship, between 75,000 and 150,000 pounds. Excavation trucks used by the Army with tire diameters of nine and a half feet require about 3,500 pounds. There are many hundred more products requiring rubber that are vital in the war effort, such as blimps and barrage balloons. The latter have not been used in the United States to any extent, but, if the war reaches our shores, tremendous quantities of rubber will be needed for them. Rubber boats, rafts, safety vests and suits for flyers, hospital rubber requirements, etc., also demand rubber.

Ironically, press dispatches from the Far East indicate that the Japanese are cracking rubber to produce gasoline and other oils, which is evidence that they have a shortage of oil despite the fact that they have taken over the Far Eastern oil fields of the Netherlands and Great Britain. As a contrast, in the United States we crack petroleum to produce synthetic rubber and gasoline.

It may well be asked: Is synthetic rubber equal to the natural? One may say that the synthetic product is at least equivalent to the natural, but that, as of today, it does not duplicate it. But it is not essential to duplicate nature's product, for the chemist's goal is to produce rubber with properties far superior to those of the natural. The synthetic product has already shown far superior properties from the standpoint of gasoline, oil, and chemical resistance. It has greater wearing properties and does not deteriorate readily in sunlight and air.

A number of trucks and motor cars using synthetic rubber have gone over 35,000 miles, and, with the amount of research going on in the laboratories,

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one may reasonably expect 100,000 miles eventually. The greater general strength of a synthetic tire means fewer driving hazards and far better road gripping, as thorough tests on wet and muddy roads have proved. Hill tests made with a number of trucks on a muddy road showed that the synthetic-tired vehicle did very little side-slipping, while the natural-tired slipped all over the road. Taxicab drivers advise that they feel far safer driving in mud or on wet city streets when their cabs are tired with synthetic rubber.

The research laboratories of the United States have discovered at least 3,000 synthetic rubbers of varying properties. Some of them are exceedingly expensive to produce and others relatively low priced. One may state that synthetic rubber for tires will be highly competitive with the natural rubber and that, in mass production, synthetic should cost less than 15 cents a pound. Natural rubber has sold at prices varying from 3 cents to $3.00 per pound. Never again should the United States be caught short of rubber whether in war or peacetime.

AVIATION DEVELOPMENTS

Scientific, technical and industrial miracles are taking place throughout the United States, and not the least of them are occurring in the airplane industry. In a few years, production of airplanes has stepped up from less than 1,000 per year to more than 48,000 in 1942, with 100,000 projected for 1943. And design, quality, and size incorporate the knowledge gained on the fighting and research fronts.

Extraordinary strides have been made in the fabrication of airplane engines, propellers and bodies; for instance, the materials of construction are now aluminum and magnesium and their alloys, stainless steel, plywood, and plastics, which will all be highly competitive after the war. Aluminum alloy forgings for cylinder heads stepped up the horsepower of the engines 15 per cent as well as decreasing their weight. Seversky reported recently that a 32,000-horsepower airplane was in the making, using four 8,000-horsepower engines. A Flying Fortress, the U. S. Army B-19, is an 8,800-horsepower airplane, with a 36,000-pound high-explosive carrying capacity. In contrast, "Air Jeeps" of 65 to 100 horsepower are used for fighting, since they carry Stokes mortars and heavy machine guns, as well as 100-pound bombs, and have a range up to 500 miles with an altitude averaging about 1,000 feet. They are also used for observation in place of the old-type balloons, for courier duty, and as auxiliary scouts and advanced guards by the striking forces. In peacetime, these planes were the well-known Piper Cubs, Aeroncas, Taylor Crafts, Fairchilds, and Stinsons.

There are many chemical processes involved in the production of our aviation gasoline. The 100-octane gasoline is a 100 per cent development of the oil industry of this country. We have aviation gasoline and lubricating oils far superior to those the Axis powers possess. The octane ratings of aviation gasoline collected from shot-down German planes averaged about 87. It has been reported that the German invasion of England in September, 1940,

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was stopped by the R.A.F. because the British fighting planes were powered with 100-octane fuel, while the German planes were fueled with 87-octane.

The importance of high-octane ratings in gasoline for airplanes is strikingly shown in the performance of 87-octane compared to that of 100-octane in a bombing plane, particularly as to speed, rate and time of climbing to maximum ceilings and maneuverability of the plane. Comparative tests showed that it took a bombing plane 19 minutes to reach an altitude of 26,000 feet with 87-octane, whereas with 100-octane it required only 12 minutes. The absolute ceiling of the plane in round numbers was 37,000 versus 33,000 feet for the lower-octane-fueled plane.

CONCLUSION

World War II may not be a total loss for humanity. Industry has reached a tempo never before attained in this country, with collaboration and exchange of knowledge between heretofore highly competitive groups. New materials now in war production will have great peacetime values. We shall also have access to a vast amount of knowledge and experience which has been accumulated as the result of hectic years of war. Man's life will be prolonged, his health, mentality, imagination, and productivity increased, and the pain and irritations of life reduced to a minimum.

POPULATION SHIFTS AND INCOME CHANGES

By PHILIP M. HAUSER
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IT is carrying coals to Newcastle to tell marketing men that markets are people with purchasing power. People and purchasing power have both been profoundly affected by the impact of the war. It is fitting, therefore, at a wartime marketing conference that some time be devoted to a consideration of population shifts and income changes.

Both the magnitude and the direction of internal population movements have been vitally effected by the tremendous industrial conversion and expansion necessitated successively by the defense, lend-lease, and war production programs. But, despite the widespread interest in internal migration from the manpower, production, administrative and marketing standpoints, there is not much information available on the number and characteristics of the migrants and the direction of their movements. In order to meet urgent demands for

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some information on the subject the Census Bureau, although fully cognizant of the limitations of the data, has used the number of registrations for War Ration Book One (the sugar registration in May) as a basis for a series of civilian population estimates.

DIVISIONS AND STATES

Let us first turn to the consideration of population shifts on a divisional and state basis, as given in a release by Director J. C. Capt of the Census Bureau last October 27 (Series P-3, No. 30). On May 1, 1942, the total civilian population of the United States numbered about 131,300,000. This figure was almost identical with the figure for the civilian population at the last census—that is, on April 1, 1940—because inductions into the armed forces had approximately equaled combined natural increase (excess of births over deaths) and net immigration.

Within the nation, however, the East North Central Division, with a gain of approximately 500,000 persons between April 1, 1940, and May 1, 1942, showed the greatest absolute population increase, while the Middle Atlantic Division, with a loss of more than 600,000 persons, showed the greatest decline. On a percentage basis, the Pacific Division experienced the greatest increase, 3.4 per cent, while the Mountain Division registered the greatest decrease, 4 per cent. The South Atlantic Division also showed a considerable increase during this period, registering a gain of almost 400,000 persons, while the West North Central Division showed a substantial decrease, approximately 480,000. The New England, East South Central and West South Central Divisions registered relatively little change in total civilian population in the two years under consideration. In general, therefore, the Pacific, South Atlantic, and East North Central States made considerable population gains as a result of the war at the expense of the Mountain, West North Central, and Middle Atlantic States.

However, the broad divisional changes outlined obscure a number of important variations among the states. By far the largest absolute gains in population were registered by Michigan and California, each of which showed an increase of more than 300,000 persons. Illinois, the District of Columbia and Virginia were the only other states to show an increase of more than 100,000 persons, although nine other states (Connecticut, New Jersey, Ohio, Indiana, Maryland, Florida, Alabama, Louisiana and Texas) each gained 50,000 to 100,000.

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In contrast, the population of New York State declined by more than 500,000 in the period under consideration; that of Pennsylvania, by almost 200,000; and Minnesota and Oklahoma showed a loss of more than 100,000. Populations of seven other states (Iowa, North Dakota, South Dakota, Nebraska, Kansas, North Carolina and Kentucky) decreased during these two years by from 50,000 to 100,000; and, of the remaining 23 states,[1] nine showed increases and 15 decreases of fewer than 50,000 persons.

Population losses were particularly heavy in the Dust Bowl States—the Great Plains Area, extending from North Dakota in the West North Central Division to Oklahoma in the West South Central Division. This is the area which also lost considerable population during the '30's as a result of drought and depression. It would seem that rural states lost population to urbanized industrial states, a generalization supported by the estimates of the Bureau of Agricultural Economics to the effect that the net movement from farms to cities increased from approximately 500,000 in 1940 to more than 1,000,000 in 1941.

METROPOLITAN CENTERS

This brief analysis of population shifts by states also obscures specific areas of increase and decrease. In fact, one of the outstanding characteristics of wartime population shifts in the United States has been the extent to which population increase has been concentrated in a relatively few metropolitan counties or groups of counties.[2]

Eighty-eight of 137 metropolitan counties or groups of counties for which estimates are available showed a gain in civilian population between April 1, 1940, and May 1, 1942, while 43 showed a decline and six showed no appreciable change. Populations of the metropolitan counties which gained increased by 2,600,000, or by 6.8 per cent of their 1940 civilian population. Although the annual post-censal rate of increase of 1.3 per cent for all the metropolitan counties was appreciably greater than the .8 per cent annual rate of increase for the same areas between 1930 and 1940, it was considerably lower than the average annual rate of 2.7 per cent between 1920 and 1930. It is of some special interest to observe that the rapid rate of increase experienced by metropolitan centers as a result of the war has not, on the average, come up to the increase of the '20's.

Let us analyze the population changes in the metropolitan counties in the Northeastern, the North Central, Southern, and Western Regions of the United States. The metropolitan counties in the South showed the greatest annual rate of increase in population between 1940 and 1942, 3.9 per cent, compared with an annual rate of increase of 2.7 per cent in the West, 2 per cent in the North Central Region, and an annual rate of decrease of .6 per cent in the Northeast. The metropolitan counties in the South, in fact, were the only ones in which the yearly rate of increase since the last census was greater than the yearly

[1] Wisconsin is not included in the total because revised figures on this state are expected.

[2] Metropolitan counties or groups of counties—that is, counties half or more of whose population was in metropolitan districts—are considered instead of metropolitan districts because sugar ration data were available only for counties.

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rate of increase between 1930 and 1940 and that between 1920 and 1930 (3.9 per cent compared with 1.7 per cent and 2.9 per cent). Moreover, in the South the small metropolitan counties (those having central city populations of less than 100,000 or a total population of less than 150,000) had a slightly higher annual rate of increase than did the large metropolitan counties, 4.1 per cent compared with 3.9 per cent. In each of the other three regions, the large metropolitan counties grew more rapidly than did the small.

Great differentials in the rates of growth of individual metropolitan centers are evident in an examination of the preliminary estimates of civilian population in selected metropolitan counties, as of May 1, 1942, released by the Census Bureau on December 1, 1942 (Series P-3, No. 31).

Very large gains in civilian population have taken place in the metropolitan counties of the following cities: Detroit, a gain of 336,000; Washington, D. C., 231,000; Chicago, 149,000; Los Angeles, 131,000; Norfolk, Portsmouth and Newport News, 107,000; St. Louis, 97,000; San Diego, 97,000; and San Francisco and Oakland, 95,000. The largest percentage gains were recorded in the areas centering in San Diego; Norfolk, Portsmouth and Newport News, Mobile; Corpus Christi; and Washington, D. C.—all of which had a civilian population gain of more than 25 per cent. The largest loss, 365,000, occurred in New York-Northeastern New Jersey metropolitan counties.

These extreme changes and other shifts recorded in the release to which reference has been made are attributable mainly to net in-migration or out-migration rather than to natural increase or decrease. Metropolitan counties with high rates of growth were, in practically every case, those with more than average wartime activity, whereas those with heavy rates of decline were relatively inactive and contained relatively few important plants working on war contracts. The gains in civilian population were effected despite the substantial number of men who entered the armed forces from every area.

Of special interest to marketing executives is the answer to the question, "Are these wartime population shifts temporary or permanent?" No one can answer with certainty, but one relatively simple criterion which can be applied in an effort to do so is that of previously observed growth. To obtain at least a crude analysis of the relative permanence of the wartime population growth of metropolitan centers as measured by previously observed population increases, the average annual rates of growth of the 135 metropolitan areas[3] studied have been arranged by quartiles for the periods 1920 to 1930, 1930 to 1940, and 1940 to 1942. The areas in the fourth quartile are those with the highest rates of growth; areas in the first quartile, those with the lowest rates of growth or with rates of decline.

A comparison was made of the quartile rankings of each metropolitan county for the three periods of growth under observation and the following four classes of metropolitan counties distinguished: Class A areas—those which have grown at a relatively rapid rate since the onset of the war and which, in

[3] The relative permanence of the growth of Milwaukee and Montgomery (Alabama) counties was not analyzed because available figures are now being revised.

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the light of previously observed rapid growth, may be expected to retain their population increments; Class B areas—those which grew rapidly during the war but whose population increase, in the light of previously observed small increases, may be regarded as relatively temporary unless special effort is made to convert their wartime activities to normal peacetime functions after the war; Class C areas—those which lost population or grew very little as a result of the war but which, in the light of good past performance, may be expected to "come back" in the postwar period; and Class D areas—those which lost or gained very little during the war and which, in the light of relatively poor past performance, cannot be expected to grow rapidly in the immediate future. Within these broad classifications of metropolitan counties, it was possible, on the basis of differentials in growth rankings, further to stratify areas with respect to the probability of the predictions made.

CLASS A METROPOLITAN COUNTIES

The first of these classes of metropolitan counties, those which have experienced rapid wartime growth and which may be expected to retain it, was made up as follows:

Class A-1 areas—those which grew most rapidly during the war with the *best* prospects of retaining their wartime growth. (These are the areas which fell in the fourth quartile, that of most rapid population increase, in each of the three periods under observation.)

Corpus Christi, Tex.
Dallas, Tex.
Jackson, Miss.
Jacksonville, Fla.
San Antonio, Tex.
San Diego, Calif.

Class A-2 areas—those which grew most rapidly and have superior prospects of retaining their wartime growth. (These are the areas which fell in the fourth quartile in the last two periods of observation although they experienced relatively slow growth between 1920 and 1930.) Belief that they will retain their wartime growth seems justified on the grounds that centers which grew rapidly in the face of the severe handicaps of the depression years as well as in the war period are "safe bets."

Charleston, S. C.
Columbia, S. C.
Columbus, Ga.
Mobile, Ala.
Washington, D. C.
Galveston, Tex.

Class A-3 areas—those which grew at above-average rates consistently for each of the three periods under observation and which are assumed, therefore, to have *excellent* prospects of retaining their wartime growth. (These are the centers which fell into the third or a combination of third and fourth quartiles for each of the three periods considered.)

Atlanta, Ga.
Austin, Tex.
Beaumont-Port Arthur, Tex.
Chattanooga, Tenn.
Detroit, Mich.
Fort Worth, Tex.
Houston, Tex.
Kalamazoo, Mich.
Knoxville, Tenn.
Little Rock, Ark.
Los Angeles, Calif.
New Orleans, La.
Nashville, Tenn.
Sacramento, Calif.
San Francisco, Calif.
Shreveport, La.

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Class A-4 areas—those which grew at above-average rates or most rapidly during the war period and have *good* prospects of retaining their growth. These are areas which registered above-average increases during the depression years in spite of economic handicaps, even though they grew relatively slowly between 1920 and 1930. (These centers fell in the third or fourth quartiles in the last two periods under observation, and below those quartile rankings in the first period.)

Augusta, Ga.
Baltimore, Md.
Davenport-Rock Island-Moline (Iowa and Ill.)
Denver, Colo.
Evansville, Ind.
Indianapolis, Ind.
Macon, Ga.
Norfolk-Portsmouth-Newport News, Va.
Portland, Me.
Richmond, Va.
Salt Lake City, Utah
Savannah, Ga.
Seattle, Wash.
Tacoma, Wash.
Wilmington, Del.

Class A-5 areas—those which grew at above-average rates in the war period and have *fair* prospects of retaining their wartime growth. These are areas of moderate or rapid increase in at least one of the preceding two periods. (The centers in this list fell in the third quartile of growth in the war period, at least in the second quartile during the depression period, and the second or third quartile between 1920 and 1930.)

Canton, Ohio
Chicago, Ill.*
Cincinnati, Ohio
Columbus, Ohio
Decatur, Ill.
Fort Wayne, Ind.
Hamilton-Middletown, Ohio
Portland, Ore.
Pueblo, Colo.
St. Louis, Mo.
Springfield, Ohio

* Chicago fell into the first quartile between 1930 and 1940.

CLASS B METROPOLITAN COUNTIES

Class B metropolitan counties were those which grew rapidly during the war but whose growth may be transient unless special effort is made to convert their wartime activities to normal peacetime functions. These areas may be divided into two groups:

Class B-1 areas—those which have grown most rapidly in wartime but whose growth rankings, although far above those of the depression years, exceeded by little, if any, their 1920-1930 growth. (These are centers which fell in the fourth quartile of wartime growth, in the first or second quartile of depression growth, and in the third or fourth quartile of growth between 1920 and 1930.) Metropolitan counties in this class, in the light of their relatively rapid growth between 1920 and 1930, may perhaps be easier to convert to normal peacetime functions than the Class B-2 centers below.

Birmingham, Ala.
Dayton, Ohio
El Paso, Tex.
Hartford-New Britain, Conn.
Rockford, Ill.
Tulsa, Okla.
Wichita, Kan.

Class B-2 areas—those with above-average or most rapid wartime growth whose relative growth was far above that in either of the preceding two periods of observation. (These are centers in the third or fourth quartiles of wartime

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growth and in the first or second quartiles of growth between 1930 and 1940 and between 1920 and 1930.) The relatively low growth rankings of these areas during the 20 years preceding the war indicates that it may be relatively difficult to convert their wartime functions to normal peacetime activities.

Bridgeport, Conn.
Johnstown, Pa.
Louisville, Ky.
New Haven, Conn.
Akron, Ohio
Waco, Tex.

CLASS C METROPOLITAN COUNTIES

In the third class of metropolitan centers, Class C, are those which lost population during the war or which barely held their own but which, in the light of past performance, may be expected to "come back" in the postwar period. These metropolitan counties may be divided into three classes:

Class C-1 areas—those which lost population during the war period but have excellent prospects of "coming back" because of previously observed above-average or most rapid rates of growth. (These are the centers which fell in the first or second quartiles of wartime growth but in the third or fourth quartile of growth during the preceding two periods of observation.)

Amarillo, Tex.
Asheville, N. C.
Binghamton, N. Y.
Charleston, W. Va.
Charlotte, N. C.
Lansing, Mich.
Oklahoma City, Okla.
Peoria, Ill.
Stockton, Calif.
Winston-Salem. N. C.
Miami, Fla.

Class C-2 areas—those which gained very little or barely held their own with excellent prospects of "coming back" because of previously observed above-average or most rapid rates of growth. (These are the centers which fell in the second quartile of wartime growth but in the third or fourth quartiles of pre-war growth.)

Durham, N. C.
Madison, Wis.
Memphis, Tenn.
Phoenix, Ariz.
San Jose, Calif.
Tampa-St. Petersburg, Fla.
Waterloo, Iowa

Class C-3 areas—those which lost population or gained very little during the war period which have fair prospects of "coming back" because of an above-average or most rapid rate of growth during at least one of the two preceding periods. (These are the centers which fell in the first or second quartiles of wartime growth but in the third or fourth quartiles of growth between 1930 to 1940 or 1920 to 1930.)

Cedar Rapids, Iowa
Des Moines, Iowa
Flint, Mich.
Fresno, Calif.
Huntington (W. Va.)-Ashland (Ky.)
Minneapolis-St. Paul, Minn.
New York-Northeastern N. J.
Roanoke, Va.
Spokane, Wash.
Springfield, Mo.
Topeka, Kan.
Youngstown, Ohio

CLASS D METROPOLITAN COUNTIES

Finally, in the fourth class of metropolitan centers, Class D areas, are those which decreased during the war or gained very little and which, in the light of past performance, seem to be relatively stable—that is, cannot be ex-

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pected to grow rapidly in the immediate future. These metropolitan counties can be divided into three classes:

Class D-1 areas—those which lost population or grew very little during the war and the depression but which grew at an above-average rate or most rapidly between 1920 and 1930. These areas are difficult to evaluate and may well belie their allocation to this class. (These are the centers which fell in the first or second quartiles during the war and the depression years but in the third or fourth quartiles between 1920 and 1930.)

Atlantic City, N. J.
Cleveland, Ohio
Grand Rapids, Mich.
Kansas City (Mo.)-Kansas City (Kan.)
South Bend, Ind.

Class D-2 areas—those which grew very little or not at all during the war and which, in the light of past performance, have little prospect of rapid post-war growth. (These are the centers which fell in the second quartile of wartime growth and the first or second quartiles of growth in the preceding two periods of observation.)

Allentown-Bethlehem-Easton, Pa.
Buffalo-Niagara, N. Y.
Erie, Pa.
Harrisburg, Pa.
Omaha (Neb.)-Council Bluffs (Iowa)
Philadelphia, Pa.
Providence, R. I.
Springfield-Holyoke, Mass.
Terre Haute, Ind.
Trenton, N. J.
York, Pa.

Class D-3 areas—those which lost population during the war and which, in the light of past performance, have little prospect of recouping their losses. Many of these centers, in fact, also lost population during the depression. (These are the areas which fell in the first or second quartile of wartime growth and in the first or second quartiles of growth in the preceding periods.)

Albany-Schenectady-Troy, N. Y.
Altoona, Pa.
Boston, Mass.
Duluth (Minn.)-Superior (Wisc.)
Fall River-New Bedford, Mass.
Lancaster, Pa.
Lincoln, Neb.
Manchester, N. H.
Pittsburgh, Pa.
Racine-Kenosha, Wisc.
Reading, Pa.
Rochester, N. Y.
Saginaw-Bay City, Mich.
St. Joseph, Mo.
Scranton-Wilkes-Barre, Pa.
Sioux City, Iowa
Springfield, Ill.
Syracuse, N. Y.
Toledo, Ohio*
Utica-Rome, N. Y.
Wheeling, W. Va.
Worcester, Mass.

* Toledo fell in the third quartile of growth between 1920 and 1930 but lost population both during the depression and the war.

GROWTH OF SOUTH AND WEST

Let us with broad strokes summarize the results of this analysis. Of the 135 metropolitan counties, 54, or 40 per cent, are Class A areas, those which experienced rapid wartime growth and which, with varying degrees of probability, are likely, on the basis of previously observed growth alone, to retain their wartime population increase. Thirteen, or 9 per cent, of the metropolitan centers are Class B areas, metropolitan centers whose rapid wartime growth may be regarded as transient in character unless their wartime activities are successfully converted to normal peacetime functions. Thirty of the metro-

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politan counties, or 22 per cent, are Class C areas, those which lost population during the war or which barely held their own but which, in the light of past performance, may be expected to come back. Finally, 38 or 28 per cent of the metropolitan counties are Class D areas, those which lost population during the war or gained very little and which, in the light of past performance, are not likely to grow rapidly in the postwar period.

On a regional basis, it is clear that the metropolitan centers which have grown most rapidly and which, in terms of the criterion of past growth, have the best prospect of retaining their growth are in the South and in the West. Of the 28 metropolitan counties in Class A-1 to A-3—those which have the best prospects of retaining rapid wartime population increments—22 are in the South, four in the West and only two in the North. Whereas approximately two-fifths of all the metropolitan counties are Class A areas, more than three-fifths of the southern and western areas are in this class, contrasted with approximately one-fifth of the northern metropolitan counties.

At the other extreme, 38 of the 39 areas which decreased or grew very little during the war and which are not likely to increase rapidly are in the North. Whereas a little over one-quarter of all the metropolitan counties fall in Class D, the relatively stabilized cities, only 2 per cent of the southern cities and none of the western areas fall in this class, contrasted with almost half of the northern centers.

The Class B centers, those whose wartime growth is relatively transient, include 9 per cent of all the metropolitan counties, 10 per cent of the southern areas, none of the western and 11 per cent of the northern areas. Finally, in the Class C areas, those which lost population or grew very little but which may reasonably be expected to come back, there are included 22 per cent of all the metropolitan counties, 25 per cent of the southern areas, 41 per cent of the western, and 15 per cent of the northern.

It is significant that the picture of rapidly growing metropolitan centers in the South and in the West obtained through this analysis is in conformity with that obtained from other studies. This is not surprising in light of the fact that the South is the least industrialized and least urbanized region of the nation and has only recently begun to feel the impetus of industrial and urban development, and that the West is also still in a developmental state. The war, which has required tremendous industrial expansion has given great impetus to developments in the South and West which were under way but has failed to revive the growth of the relatively highly industrialized, mature, and stabilized centers of the North.

POSSIBILITY OF ERROR

This classification of counties is undoubtedly full of pitfalls and is to be regarded only as a first approximation to the type of analysis desired. In the first place, one must remember that the index of wartime population growth is based on sugar registration data and the relative growth rankings are, therefore, subject to some error for individual metropolitan centers even if the

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general picture may be regarded as approximately correct. Second, it is to be noted that the analysis made is relatively crude and entirely mechanical in terms of the quartile rankings of growth. In using this mechanical means of classifying the metropolitan centers, it is, of course, assumed that past growth is an indicator of future growth, an assumption which is obviously subject to considerable error. Further refinement of the data and analysis of specific industrial and other economic factors, such as possibilities of converting wartime production facilities to peacetime functions, would undoubtedly lead to a number of changes in classification.

Moreover, and fundamentally more important, the dependence of these predictions upon previously observed rates of growth of the metropolitan counties assumes that the postwar economic order will, in general, represent a continuation of our national economy as we have known it in the past. This, it goes without saying, is a dangerous assumption. The character of our postwar economy and of our internal population distribution will, to a large extent, depend upon unpredictable national and international political, economic, social and technological developments, a discussion of which is beyond the scope of this paper.

On the technological side alone there is ample reason for accepting any predictions of postwar population distribution with considered caution. For example, the large-scale use of the mechanical cotton picker may greatly modify the population distribution of the South and, therefore, that of the nation at large. The development of the helicopter may—to speculate—result in fundamental redistributions of our population within and among metropolitan centers, between urban and rural areas, and among the states. The development of air cargo transport has also been regarded as a factor which may be revolutionary in its effect on population concentration. Although air cargo transport is by no means the most important of the factors which may affect postwar population distribution, it is one which has recently received much attention and I have been invited to dwell upon it at relative length.

EFFECT ON POPULATION OF AIR CARGO TRANSPORT

Analysis of the population distribution of the world discloses that the preponderant majority of the population lives on the edges of the continents, in the "coastlands" which the geo-politicians have publicized. The great land mass of the "heartland" or interior has, compared with water routes, been a barrier to travel and communication. Large concentrations of population—the large metropolitan centers—have in the history of man been without exception, located on water routes, and only more recently have rail or highway routes assumed much importance.

Technological developments in transportation which have decreased the time-cost elements of moving over large land masses have on the whole tended to offset the advantages of population centers located on water routes, and have made possible relatively large population concentrations in the inland areas. Such technological developments, however, have by no means made it possible

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for land or air routes to displace water routes as means of travel, cargo shipment, and communication.

The development of the airplane has decreased land distances tremendously because the peculiar attributes of air transport are speed and indifference to terrain. To date, however, although air transportation has in some measure revolutionized travel and communication, the inherently high cost elements involved have prevented the airplane from becoming a serious competitor of water and land forms of transportation in the handling of bulk cargoes.

The development of air transport is, of course, being tremendously stimulated by the necessities of war, and it is clear that in the postwar period air cargo transportation will increase tremendously. Air cargo transportation has, in fact, already undergone great development. Welch Pogue, Chairman of the Civil Aeronautics Board, has recently called attention to the fact[4] that the carriage of air cargo in the United States has grown from 2,750,000,000 pound-miles in 1936 to more than 17,250,000,000 pound-miles in the past year. However, as Mr. Pogue points out, air cargo and mail pounds together in 1939 were only .02 per cent of the total inland inter-city freight traffic for the year, a total which reached 536,800,000,000 ton-miles or more than one quadrillion pound-miles. That is, a 500-fold increase in air cargo transport would still leave it handling only 1 per cent of total inland inter-city freight traffic.

Although the volume of air cargo transportation will continue to increase, it is fantastic to assume that in the foreseeable future air cargo transport will do more than slightly nibble at rail, truck and water shipments. This is easily demonstrated by time-cost considerations as outlined in a recent address by W. A. Patterson, president of the United Airlines.[5] Mr. Patterson made clear, for example, that one freight train could make two round trips between Chicago and San Francisco in a month's time, moving 1,560 tons by rail each way. In terms of normal operating experience 57 airplanes, each of which would make 11 round trips per month, would be required to do the job of the one freight train. The total operating cost of the 57 airplanes would amount to $1,750,000 during the month, whereas the freight-train cost would total $50,000. During the month the airplanes would require 1,500,000 gallons of gasoline, compared with the 170,000 gallons of fuel required by the train. The planes would require 400 pilots, compared with 20 crew members to keep the train running. The airplane operation would cost 35 times as much as the freight-train operation.

A similar analysis made by Mr. Patterson comparing air and water transportation costs between San Francisco and Brisbane, Australia, indicates that total airplane costs would run 250 times a surface freighter's round-trip cost. Moreover, in light of the refueling problem, 144 airplanes, plus three tankers, would be required to do the job of transporting freight to Australia that could in the first instance be done by one ocean-going freighter.

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[4] "Air Cargo Today and Its Influences in the Post-War World," address before the University Club, New York, December 12, 1942.

[5] Delivered before the National Industrial Conference Board, New York, November, 1942.

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Even if ample allowance is made for technological improvements, and for increased volume of air cargo, Mr. Patterson pointed out, the over-all ton-mile cost of air cargo, which runs in the neighborhood of 40 cents at the present time, could not be reduced much below 10 cents. This would still place the airplane at tremendous disadvantage in the movement of bulk freight in competition with surface transportation, which figures ton-mile costs in mills.

Such differentials in cost may in some circumstances be justified by the need for speed. Certainly the cost factor is incidental in time of war when the nation's safety and future may depend on speed. It is reasonable, therefore, to expect air cargo transport to be used for military purposes in circumstances that would be unsound in peacetime.

Air cargo transport, even in the postwar world, can be economically utilized only under certain conditions. These, as stated by Mr. Patterson, are: (1) An emergency has to be met; (2) an opportunity must exist for a substantial saving in warehousing and inventory costs; (3) commodities must have a value per pound sufficiently high to make possible worthwhile savings in financial and insurance costs; and (4) surface transport must be inadequate or non-existent.

In the light of these facts, the development of air cargo transportation cannot be regarded as a factor which will revolutionize the distribution of population in the foreseeable future. Over-enthusiastic supporters of air transport who anticipate a rapid shrinking of port or rail centers should not be taken seriously. The complete impossibility, in the foreseeable future, of airplanes taking over all shipments of bulk cargo is evident in a projection of the number of planes it would take to replace freight cars in the United States.

A single present-day cargo airplane, it is estimated, can do the work of three freight cars. If the airplanes were to take over all rail freight movement, 600,000 transport airplanes would be required, as compared with the total of 362 commercial transport airplanes in use on all airlines in the United States prior to December 7, 1941. In a year's time these planes would consume 122,000,000,000 gallons of gasoline, two and a half time more than the pre-war cracking equipment of all the refineries in the world could supply. It would require two and a half million pilots to fly this fleet and a total airline personnel of 20,000,000 persons, or 15 per cent of our entire population. Mr. Patterson, on whom I am dependent for this analysis, dryly remarks, "This would be a very substantial contribution to a solution of any postwar unemployment problem if only the cost were not so great."

The flivver airplane, or the development of the helicopter may, in fact, more profoundly affect the distribution of population, in changing relationship between place of work and place of residence, than will the air cargo transport plane. This perspective, however, which in my judgment is a proper one with respect to the effect of air cargo transport on population distribution, should by no means be regarded as minimizing the importance of future air cargo transportation development. Air cargo transport, and particularly air travel and communication, has a bright future as a supplement to surface transporta-

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tion, and one which will undoubtedly contribute greatly to the increased efficiency of our postwar world.

INCOME CHANGES

The great expansion in industrial production and economic activity in general, resulting from the war, has been reflected in an unprecedented rise in national income. It is estimated by the Bureau of Foreign and Domestic Commerce of the Department of Commerce that national income reached an all-time high of $117,000,000,000 in 1942. This represents an increase of $22,000,000,000, or almost 25 per cent, above the 1941 level, an increase of $40,000,000,000, or well over 50 per cent, over that of the 1940 level, and an increase of $77,000,000,000, or well over 100 per cent, after ample allowance is made for inflation, above the 1932 level. Although all major types of income shared in the increase, by far the greatest increase occurred in wage and salary payments. On the basis of Bureau of Foreign and Domestic Commerce figures, it is estimated that wages and salaries increased by about $19,000,000,000 between 1941 and 1942, an increase which accounts for all but $3,000,000,000 of the rise in total income.

The increase in the total income of the nation has resulted in a general upward shifting in consumers all along the income scale. It is possible to analyze this shift on the basis of the estimates prepared by the National Resources Committee for 1935-1936 and by the Research Division of the Office of Price Administration for 1941 and 1942. In 1935-1936, for example, 17 per cent of the families (including single-person families) had an income of under $500; by 1941 only 8.7 per cent and in 1942 only 5.7 per cent of the consumer units fell into this class. Whereas 29.5 per cent of the families had an income between $500 and $1,000 in 1935-1936, only 20.2 per cent and 15.6 per cent, respectively, fell into this class in 1941 and 1942. Thus, consumer units with an income of less than $1,000 decreased from 46.5 per cent in 1935-1936 to 28.9 per cent in 1941 and 20.3 per cent in 1942.

On the other hand, whereas only 18.3 per cent had incomes of $2,000 or more in 1935-1936, 33 per cent of the families were in this class in 1941 and 42.2 per cent in 1942. Median income, the level above and below which half the consumer units fall, rose from $1,070 in 1935-1936 to $1,485 by 1941 and $1,775 by 1942.

THE INFLATIONARY GAP

The purchasing power and effective demand of consumer units has not, of course, kept pace with this abnormal increase in income. In fact, it is illusionary for the marketing executive to deal with these income increases as if they represented available purchasing power. In the short span of seven years represented by these available estimates of family income, the general economic picture has completely changed from one in which, from the marketing standpoint, the outstanding characteristic was a lack of purchasing power to one in which there is an excess of purchasing power. In 1935 and 1936 there was not sufficient purchasing power to absorb available supplies of consumer goods and

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services. In 1942, in contrast, the supply of consumer purchasing power exceeded available consumer goods and services to such an extent that a steady upward rise in prices and living costs occurred despite price control measures, despite increased taxes, and despite an extraordinary rise in savings.

In 1943, it is estimated by Randolph E. Paul, General Counsel of the Treasury,[6] that the gap between consumer purchasing power and the value of the available supply of goods and services will be even greater. Total national income in 1943 may reach $125,000,000,000 (this estimate has been recently revised upwards by the Department of Commerce to $135,000,000,000). Of this amount it is anticipated that $15,000,000,000 may be absorbed in direct taxes paid by individuals and $25,000,000,000 will represent consumer savings, if savings continue at about the 1942 level. The remaining $85,000,000,000 must be related to the supply of goods and services, valued in terms of present prices at about $70,000,000,000—a supply, incidentally, smaller than that available in 1942. The $15,000,000,000 difference between the $85,000,000,000 of purchasing power and the $70,000,000,000 of available goods and services is referred to as the "inflationary gap" and will represent an enormous pressure on prices during the coming year, particularly as 1943, unlike 1942, will witness a mass pressure of *rising* incomes on a *declining* total supply of consumer goods. Moreover, this pressure may be further increased if "liquid savings" are also utilized for purchasing power.

FUNCTION OF THE MARKETING EXECUTIVE

It is clear from this brief summary of the income picture that the major distribution problem in the coming year will be to restrain rather than stimulate purchases. Expansion of the rationing program has already been announced, and the need for it is clearly evident. The marketing executive who wished for increased purchasing power in the $40,000,000,000 national income epoch of the '30's is today very much in the position of King Midas after his wish was granted.

However, the marketing executive need not necessarily suffer as Midas did. He has the power and the opportunity to adapt his normal peacetime function to a wartime role. In the general economic setting described, many changes, some of which are already evident, must occur in marketing practices. Donald Nelson in a recent address before the Wartime Conference of the Association of National Advertisers directed attention to some of these important modifications of program:

> Advertising can contribute to maintenance of the civilian war economy in at least four ways: (1) Where a manufacturer continued to have goods to sell to the civilian market, advertising has the same role it always had—to help sell them; (2) The manufacturer who is now selling goods to the government instead of to the civilian may still have a very proper need for advertising. He can tell his former customers how to use and conserve and service the goods which he has previously sold them. Those goods in service may very well constitute the country's sole remaining stock of such articles—a stock which will have to do until the war ends; (3) There are companies which, as far as the consuming public is concerned, are virtually out of business—either actually, or

[6] Address before the Cornell University Law School, Ithaca, N. Y., December 11, 1942.

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through conversion to war production. Where such a company expects to return to the civilian market after the war, it has a perfect right to use advertising to preserve its name and its good will. The government fully recognizes the propriety of reasonable expenditures for advertising to preserve the value of those assets; and (4) Advertising has shown in its support of such things as the salvage drive, a very great usefulness as a means by which a company can participate directly in the war effort.

Moreover, if the evils of inflation are to be avoided, there is a difficult job ahead in educating the consumers of the nation that they must buy less and not more of many different types of commodities. It would seem that it should be possible to utilize the tremendous facilities of the marketing profession in this essential home front activity.

CONCLUSION

In spite of the many qualifications which must be made and the many uncertainties of the postwar world, it would seem, by and large, that an analysis of the relative permanence or transiency of wartime population shifts, even on the crude basis attempted, is in order for many purposes. It is clear, to the extent that marketing agencies and business and industrial enterprises in general have effected adjustments in their activities to the population changes which characterized the intercensal decade from 1930 to 1940, that there is need for considerable modification in current wartime and postwar practices.

This should be apparent from the brief summary which has been presented of the basic population changes since the 1940 census, some of which represent continuations and some reversals of previously observed trends of growth. The important regional, state, and locality differentials in rate of population growth and decline, which have been and will be more fully described in the releases of the Census Bureau, should not be ignored in the evaluation of markets, the determination of sales quotas, the allocation of advertising, and the distribution of goods and services in general.

However, marketing men should not make the mistake of assuming that population growth is in itself an infallible marketing index. Failure of the population to increase rapidly or a declining population does not necessarily require that business stop its expansion or begin contraction. For one thing, a stabilized or declining population may possess great purchasing power and may increase its purchasing power even without population growth. It would be absurd, for example, to assume that Pittsburgh, because it has lost population and seems, in the light of past growth, to have little prospect of growth in the immediate future, has lost its importance as a market. Areas of stabilized or declining population, although still novel to most Americans, will become increasingly familiar in the years to come. Such areas should not be written off as lost or fading markets, but rather regarded as a special kind of market which may require changes in marketing techniques and more intensive cultivation.

Finally, it is clear that the great increase in national income occasioned by the war has not solved the marketing problems of the '30's; it has simply changed the character of the problems. The present problem is one of restricting rather than stimulating distribution. Although this calls for drastic re-

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adjustments among marketing agencies, these adjustments are not impossible of achievement and may well play an important part in the strengthening of the home front and thus in the winning of the war—the major problem which confronts us all at this time. Sacrifices are called for, but they would be amply repaid by a peaceful and prosperous postwar order.

The winning of the war must be our primary objective. In striving toward this objective, as citizens or as marketing executives, it is fitting to recall one of the incidents in the life of General Nathan Bedford Forrest, the great Confederate cavalry leader. It is said that General Lee in an attempt to prepare the uncouth General Forrest for transfer to the eastern front sent a West Point officer to lend polish to his barbarisms and unorthodox tactics. It was customary, when cavalry dismounted to advance on foot, for every fifth or sixth cavalryman to remain behind and hold the horses. When the West Pointer reminded General Forrest of this practice on an occasion when the General's cavalry, to a man, tied their horses to the bushes to advance, General Forrest's instantaneous query was, "Why in hell should we leave men with the horses?" The West Pointer explained that this action was designed to make it possible for the troops to regain their horses rapidly and in an orderly fashion if it should prove necessary to retreat. The General replied, "Well, that won't be necessary here. If we win this battle we'll have plenty of time to untie the damned horses, if we lose the battle, we won't need them."

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FINDING AND PLANNING THE POSTWAR SALES STRUCTURE

BY

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FINDING AND PLANNING THE POSTWAR SALES STRUCTURE

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ONE of the most discussed topics of the day is "postwar planning." This may mean anything from the steps contemplated by the United Nations for maintaining international peace to the preparations made by individual firms for dealing with the financial, production, and distribution problems which they will encounter after the cessation of hostilities. Among business men, there are two schools of thought regarding the advisability of giving serious consideration to postwar problems now. Some executives believe that the paramount job today is to win the war, and they are pointing their fullest efforts in that direction. They take the view that until victory on the battlefields is in sight, no one can know how long the war will last, and it is upon this fact alone that both the character and magnitude of the postwar problems depend. Although this view still persists among many people, it is neither so prevalent nor positive as it was some time ago. This change is due, perhaps, to the fact that the initiative in the war has swung to our side; the fact that the broad problems of war production have largely been solved by industry; and the growing realization that peace will present critical problems too. Other executives believe that winning the war and winning the peace are parts of the same problem. They point to the utter lack of preparedness for the problems, both political and economic, which arose after the 1918 Armistice, and they

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A past president of the American Marketing Association, Mr. Cowan has been active in the development of the science of marketing. He has written numerous economic and marketing studies for business publications, and is the author of the book entitled, "Sales Analysis from the Management Standpoint." He is also a member of the American Economic Association, the American Statistical Association, and the Academy of Political Science.

* The author recognizes with appreciation, the contributions made by his staff in the preparation of this paper—D. R. G. C.

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cite the present preparations of the government and many research foundations in support of their view. We are told that 100 specialists in 35 governmental agencies are actively engaged in studying the postwar problems.

The difference between these two schools of thought is largely one of emphasis. Those devoting their entire attention to winning the war must realize that the effects of the decisions made today are not terminated at the cessation of battle but, instead, reach their full fruition in the conditions to be encountered in the postwar period. And those in the second group, although basing all their postwar plans on the assumption that the war must be won and that war effort must not be impeded, nevertheless believe that studies of postwar problems lasting from now until the end of hostilities are necessary and desirable for several reasons: (1) they are time-consuming and should not be hurried; (2) as the findings become available, wiser decisions may be made which will profoundly affect our handling of the armistice period, our opportunities for making a living, and our mode of life in the postwar tomorrow; (3) by gaining a clear understanding of the probable postwar conditions, the managements of individual concerns may set about to cushion the effects of these conditions, adapt their financial structure and their operations to them, and prepare to satisfy promptly the changed markets for their products.

After the conflict ends, there will not be a sudden resumption of the industrial aspects of 1939, but a new set of business conditions representing the ultimate alchemy of the decisions now being made under the stress of war necessity. Company managements, in planning to cope with these conditions, should divide them into three distinct groups: finance, production, and marketing. Among the financial conditions will be a huge national debt of $250 billion or more; high taxes to cover annual interest of at least $5 billion on the public debt and additional amounts for sinking fund accumulations; more taxes for a standing army; further expenditures and taxes for pump-priming "full employment"—if present governmental planners have their way; higher interest rates; higher prices nearing inflationary levels, aggravated by the lag in completion of and payment for war materials under contract; huge capital requirements for domestic and foreign rehabilitation; lack of venture capital because of taxation and other factors; restrictions on speculative investment; and the redistribution of wealth and income. Financial officers should, as far as possible, lay plans to conserve working capital, build up adequate reserves, reduce fixed capital charges, and pay conservative dividends.

Among the conditions of production—some good and some bad—will be: (1) the necessity for prompt reconversion of many plants to their normal production of consumer durable goods; (2) over-expansion of some raw material producers and many farbricators; (3) the readjustment of war-expanded plant departments to a peacetime basis; (4) government ownership of some competing plants; (5) the unusual severity of plant and labor adjustments in some geographic locations; (6) higher production costs and difficulties in reducing them because of legislation and union contracts fixing wages, hours.

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and conditions of work; (7) adjustment of operations for new products and lower-cost processes; and (8) the simplification of products along standardized lines. There will be, in addition to these, the desire of industry to absorb the several million demobilized men, either suddenly or gradually—depending on the timing of German and Japanese collapse and the necessity of policing foreign lands. Business management will need all the time available between now and the end of the conflict to put a yardstick on these huge problems and to develop plans to cope with them.

These financial and production factors have been mentioned not only because, as a part of postwar planning, they will compete with marketing problems for the time and attention of business executives, but also because they will add to the complexity of marketing problems. The postwar market is apt to be very volatile—a seller's market at one time and a buyer's market at another, heavy demands on some industries, and tapering demands on others, and so on. Confronted with many difficult decisions, successful management will not only require judgment and experience of the highest order, but, in addition, the assurance of correctness based on comprehensive factual research. The research program, to be of much help, must begin now because time is required for its development.

It is impractical to establish a pattern for all companies to follow in gaining for their executives an understanding of the postwar problems which must be met, and the most advantageous ways of dealing with them. Each corporation must choose for itself whether the committee plan, as used by some larger corporations, will prove more advisable than the appointment of one individual or the designation of a particular department. The size of the company, its products, its markets, and its methods of handling its affairs will bear heavily upon the company's decision. Each division of an organization must begin to consider its problems and market patterns, and those selected to lead in the postwar work should be chosen strictly on the basis of their ability to contribute forward-looking experience and analysis.

In the larger corporations having diversified products and markets, the committee plan—operating either formally or informally—may be the most advantageous method of approaching the problems of the postwar period. Such a plan has the following distinct advantages:

1. It is consistent with administrative authority.
2. It provides the time and talent necessary for full discussion of each division's problems and, at the same time, conserves the time of administrative executives.
3. It furnishes a systematic method of getting into the open the various problems likely to arise.
4. It establishes a method of bringing together full information including division experience, records, research analysis agreed upon, etc., leading —through discussion—to the outlining of plans.
5. It has the effect of stimulating thorough discussion of postwar problems

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throughout the organization, and it brings the weight of the entire organization into the solution of those problems.

6. It enables the formulation of tentative plans and of well-rounded recommendations for executive action.
7. It leaves the responsibility for initiating, carrying out, and obtaining results from postwar plans squarely on the administrative executives, where it belongs, consistent with organizational lines.

The suggested procedure may be outlined as follows:

1. Appoint a committee which can meet regularly for the following purposes:

a. To debate and decide what the corporation's basic postwar problems are
b. To hear views of interested individuals
c. To go over facts from various sources including research
d. To report progress on the broad program at regular intervals
e. To make recommendations to the management

2. Give this committee authority to hold meetings from time to time with small subcommittees set up in each of the sales and manufacturing divisions for the following purposes:

a. To go on record with the central committee as to what the division's postwar problems are likely to be (If they have none, go on record to this effect.)
b. To present available evidence on these problems to the central committee
c. To hear views, facts, and analyses which the central committee and other executives may wish to present for discussion with the subcommittee
d. To cooperate with the central committee, research division, and others in developing new facts pertinent to their postwar problems
e. To take definite responsibility in carrying out plans developed from the discussions, after approval of the senior executives has been obtained, and to report progress at regular intervals to the central committee

Each subcommittee should be small—at most, three men, such as the division manager, his assistant, and an operating engineer, specialized in the division's products.

3. Give the commercial research or a similar division within the corporation the assignment of keeping the committees working and, in addition, the responsibility of carrying out the following analytical steps:

a. The measurement of probable postwar productive capacity
b. The study of postwar conditions existing after previous wars, especially World War I, as a partial guide to the future
c. The statistical analysis of past trends in related industries as a partial basis for postwar market estimates
d. The analysis of changing markets
e. The development of new products and of facts regarding the possible markets for them
f. The reduction of marketing expenses and the improvement of marketing

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efficiency through a careful study of the corporation's selling and advertising effort.

These steps are fundamental in building a solid body of facts leading to a sound postwar plan of distribution. Although their application requires adaptation to each business, an understanding of their magnitude and scope can be gained from the following discussion of each step.

a. *The measurement of probable postwar productive capacity*

In order to comprehend the potential postwar supplies of goods, each industrial concern should apply a measuring stick to the probable productive capacities of its plants, of its own and competitive industries, and of industry as a whole. That these are going to be very large is apparent from the progress made thus far in the expansion program. These capacities, many times those of World War I, are essential because of:

(1) The increased mechanization of war. This necessitates a great expantion of heavy manufactures—airplanes, tanks, guns, trucks, and—for their production—new plants, machine tools, warehouses, and workers' homes.

(2) The broadened scope of operations. Never before in history has any single nation embarked on a war program which simultaneously called for a navy to dominate both the Atlantic and Pacific, naval air bases on both sides of the equator from the distant corners of the Pacific to the east end of the Atlantic, and all possible material aid to the British Empire, the Republic of China, Russia, and any other countries in trouble with the Axis powers.

The extent of this expansion is suggested by these facts: As of September, 1941, this country's defense needs were estimated at $56.5 billion of which $9.5 billion had been spent by August 31 of that year. As of December 31, 1942, Congress had appropriated $238 billion of which $68 billion has been spent. Our total expenditures in the first World War were only $39 billion.

The impact of the war program is being felt in many industries, especially in aircraft and metal industries. Steel, aluminum, magnesium, and less-known metals have undergone vast expansion programs. It is reported that in 1943 the output of electric furnace steel and aluminum will be approximately seven times the 1939 output while that of magnesium will have increased one hundredfold.

How much capacity is similar expansion going to leave in your firm as a challenge to you to find markets? Every organization should study the possibilities of conversion of wartime plants to peacetime use.

b. *The study of postwar conditions existing after our previous wars, especially World War I, as a partial guide to the future*

In addition to a careful examination of the productive capacities, attention should be given to business conditions following previous wars, and a thorough analysis should be made of the period following World War I in an effort to

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see what happened to your own and similar industries. According to the Brookings Institution, the postwar developments after the American-British War 1812-14, the Civil War 1861-65, and the first World War 1914-18 followed a definite pattern in each case, as follows: (1) a few months of hesitancy; (2) then a year or more of very active business; (3) followed by a relatively short period of trade and financial readjustment; and (4) a succeeding period of prosperity extending over several years.[1]

Here, in general, is what happened after World War I:

(1) After some hesitancy, business expanded 24 per cent from March, 1919, to January, 1920.
   (a) Building permits were $1.5 billion in 1919, or three times their 1918 value.
   (b) Railroad freight car production was 30 per cent above 1918 (largely representing a completion of unfilled orders on the books at the beginning of the year).
   (c) There was a sharp recovery in the output of automobiles and other consumer durable goods (32 per cent during 1919) which had been curtailed in 1918 and were still in the initial stage of rapid growth.
   (d) A recovery in textile output was spurred on by high wages and fear of prices going higher.
   (e) There was a further rise in shipbuilding, again largely a result of unfilled orders at the time of the Armistice.
   (f) Inventories were accumulated. The estimated physical volume of total manufacturing inventories, which declined slightly during the war, increased approximately 6 per cent during 1919.
   (g) Exports increased 20 per cent during 1919, the net export balance exceeding $4 billion.

(2) A trade collapse began in the middle of 1920 and reached its low point one year later. Immediately preceding the collapse were:
   (a) Over-production and inventory accumulation
   (b) Credit over-expansion and speculation
   (c) High level of prices
   (d) A cessation of foreign trade

Some companies failed financially because of the previous false sense of security, the use of excess capacities, and the building up of inventories from over-production. The collapse continued to affect some industries, but most of them recovered fully and expanded during the decade 1920-1930. The largest producer of war explosives, as an example, promptly and methodically set about to make new peacetime products of chemistry and by developing markets for them grew steadily during that decade. A similar buoyant business period may immediately follow World War II, and be sustained if we avoid excesses of various kinds and carefully coordinate production and distribution.

[1] Moulton, Harold G., and Schlotterbeck, Karl, *Collapse or Boom at the End of the War?* Pamphlet No. 47, The Brookings Institution, Washington, D. C., 1942, p. 2.

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By studying what happened to your own industry during the period 1919-1929, confidence may be gained and guidance may be obtained in making plans for the future. Since the new postwar pattern will differ because of new industries and the changed importance of others, the next step will be to study the current and probable trends of individual markets of the present.

c. *The statistical analysis of past trends in related industries as a partial basis for postwar market estimates*

Research in the growth of different industries—their probable output and related purchases of machinery and materials, and the use of their products at various levels of the gross national output—is an important step in planning for the postwar period. This is essential in order that the most economical basis of peacetime operations may be provided and that some idea of the potential markets may be obtained.

Probable gross national output in different categories provides an elementary pattern which, although subject to many limitations and reservations, is worthy of considerable study. The U. S. Department of Commerce provides the changes in gross output of goods and services since 1929, and also the breakdown of this total into 63 major groups of commodities and eight major groups of services.[2] This breakdown[3] includes the following:

I. Consumption Commodities
   - A. Perishable (13 components)
   - B. Semi-Durable (7 components)
   - C. Durable (21 components)

II. Producers' Goods
   - A. Producers' Durable Commodities (22 components)
   - B. New Construction (4 components)

III. Consumer Services (8 components)

With these data as a basis, the steps which any corporation may follow in estimating its share of the gross output of goods and services in the postwar years are as follows:

(1) Establish a goal for gross national output of goods and services for a postwar year, allowing a reasonable interval after the close of hostilities for business to adjust itself. In setting this goal, it will be necessary to assume a certain level of business activity. For example, one corporation assumes that the national policy at that time will be to provide for full employment either through business initiative, governmental initiative, or a combination of both and, further, that a certain level of gross national expenditure, such as $165 billion, will be necessary to implement this policy.

(2) Divide gross national output for the selected postwar year into its

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[2]
Shaw, William H., "The Gross Flow of Finished Commodities and New Construction, 1929-41," *Survey of Current Business,* April, 1942.
Gilbert, Milton, and Bangs, R. B., "Preliminary Estimates of Gross National Product, 1929-1941," *Survey of Current Business,* May, 1942.
Shelton, William C., and Paradiso, Louis J., "Monthly Estimates of Total Consumer Expenditures, 1936-42," *Survey of Current Business,* October, 1942.
Dennison, Edward F., "Consumer Expenditures for Selected Groups of Services, 1929-41," *Survey of Current Business,* October, 1942, pp. 23-30.
Shelton, William C., and Paradiso, Louis J., "Monthly Estimates of Total Consumer Expenditures, 1935-42," *Survey of Current Business,* October, 1942, pp. 8-14.

[3] See Appendix.

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various components: perishable, semi-durable, durable, producers' durable, new construction, and consumer services—either by applying their percentages in past years to the total output or by projecting their past trends.

(3) From these components, estimate the output of various industries among which the given corporation is a competitor.

(4) Estimate the individual firm's shares of these industries in the selected postwar year. Its participation in each industry may be determined by its past or projected percentage of that industry, thereby obtaining the estimated production of the company's product divisions.

One useful application of these estimates is the comparison of probable output with past and present capacity which was previously considered under Section a. This comparison will help to show which divisions appear to be over-expanded and, on the other hand, which may require expansion. Where over-expansion seems certain to have taken place, these figures will provide a starting point for either the readjustment of plant capacity to peacetime level or the development of various plans for marketing the apparent surplus. The study will also provide a basis for adjustment of employment as between departments.

This somewhat mechanical method of estimating a firm's postwar market position should not be used without a definite knowledge of its limitations. The laudable desire to attain a high level of gross national output and resulting employment in each industry is no guarantee that it can be done merely by setting those high goals. The assumption of a certain level of gross national output has questionable validity, and the resulting estimates should be qualified at least by the development of similar estimates for both higher and lower business levels. The end of the war is not yet in sight. The effects of various financial and other emergency measures on our economy have not had time to become fully apparent. In choosing the particular level and period, a distinction must be made between the immediate postwar years in which serious war shortages must be made up, and the later, more normal peacetime years when business settles down after satisfying the immediate shortages.

The use of past performance in estimating an industry's share of total output and a firm's share of the industry's output is subject to serious limitations which must be considered and carefully weighed. The war has brought revolutionary changes in many industries and individual firms. Some have modified their products while others have discontinued the making of previous peacetime products and are now tooled up to make goods of a considerably different nature. Little can be known about the effect of these technological changes until they are put into ordinary commercial production after the war.

Estimates of future business activity obtained by projection of past trends may prove to be very misleading. In 1929, business men might readily have concluded that in 1930, '31, and '32 business would be at a higher level than that of 1929, since the trend of business in the previous decade had been markedly upward; instead, business declined to the lowest level in recent times. The trends of some industries in the period 1929-1940 might lead to wholly erro-

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neous estimates of their postwar output. To mention only two examples, machine tool production might be overestimated while private construction might be underestimated. Examination of the figures indicates that estimates for other industries might also be seriously misleading when used by persons unfamiliar with statistical techniques and their limitations.

The gross outputs of different industries are compiled by the Census of Manufactures and are expressed in dollar values. A clear distinction must be made between this and output expressed in physical quantities. During a period of rising prices, the value of gross national output may increase while physical output of at least some industries may actually stand still or decline with no attendant increase in employment. Trends in the physical output of industries, if obtainable, are more reliable measures of real production and demand, especially when prices are rising or falling as a result of inflationary or deflationary forces.

The gross national output is in reality the sum of the outputs of all industries and lines of effort, and naturally high relationships between this total and the various industrial outputs comprising it may have occurred in past years by reason of the relationship of a whole to its parts. Gross national output, however, is the result of and not the cause of the activity in its component industries. The outputs of various industries may not maintain the same relationships to each other in future years as they did in past years. Consumer-goods industries might operate at high rates while, at the same time, capital-goods producers might be operating at relatively low levels because of lack of investment and confidence in the long-time future. This was actually the case during part of the period since 1929, and could result in a low level of gross national output in postwar years. Finally, if production goals could be set for all industries on the basis of their past trends, which in total might provide full employment for all employable people, there is no guarantee that the pattern of demand would absorb their output in the same proportions. For all these reasons, it is questionable whether projection of past performance or the establishment of arbitrary goals can be accepted by business managements without much more thorough studies of the changing characteristics of the markets and their new positions in them. The attainment of such high levels depends on fundamental economic conditions.

d. *The analysis of changing markets*

The kaleidoscopic effects of the war, superimposed on the rapid social and economic changes already taking place, are bringing about radical alterations in our markets which cannot be measured by projections of past trends alone. The study of these alterations is one of the important challenges to research for postwar planning. All aspects of these changing markets are of direct or indirect importance to each industry and corporation, and deserve consideration. Their scope, however, will be sufficiently indicated by a brief review of some of the factors affecting the consumer market and certain sections of the market for producers' goods, notably construction, machinery, railways, agriculture, and finally the broad foreign market.

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The consumer market for perishable and durable goods has been undergoing drastic changes in many respects. Some of these are:

(1) Population and its Changing Character
(2) Regional Shift in Population and Income
(3) Redistribution of Wealth and Income
(4) Savings

POPULATION AND ITS CHANGING CHARACTER

The upward momentum of total population has, in general, been gradually slackening for several decades. From 1920 to 1930, population increased 16.1 per cent, while from 1930 to 1940, it increased only 7.2 per cent. During 1942, the birthrate was unusually high, but this will prove to be temporary.

The average age of the population, now slightly more than 29 years, is increasing because of the declining birth rate. The segment of population between the ages of 25 and 44—which was 39.7 million in 1940—has been estimated by the National Resources Committee to be 42 million in 1945, and 44.4 million in 1950.

The population is dividing into more and smaller family units. Between 1930 and 1940, while our total population was increasing only 7.2 per cent, the increase in the number of families during the same period was 16.6 per cent. This resulted in a decline in the size of the average family unit from 4.1 to 3.8.

For the individual firm the interpretation of these population changes is very important. In general, business cannot depend on rapidly increasing population to provide great expansion in markets. On the other hand, the increase in average age tends to develop greater demand for goods of conservative style which provide comforts and conveniences. Similarly, the decline in family size is important in creating new demands which will not be confined to consumer goods alone.

REGIONAL SHIFT IN POPULATION AND INCOME

Because of war activities, regional shifts in population and income have been drastic. Between April, 1940, and May, 1942, population shifts ranged from an increase of 24.9 per cent in the District of Columbia and 17 per cent in Nevada to a decline of 7.8 per cent in Idaho. While the rapid rate of increase experienced by metropolitan centers in the same period has not on the average come up to the increase of the '20's, nevertheless 88 out of 137 metropolitan counties, or groups of counties, gained; while 43 declined and six remained constant. Metropolitan counties in the South showed the greatest annual rate of increase while, on the other hand, those in the Northeast actually declined. The flow of population from farm to city has been accelerated in many areas. This is partly the result of the flow of population from farm to city which has been accelerated in many areas.

These shifts in the growth and decline of regional population have been induced by the changing flow of regional consumer incomes resulting from

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concentration of war contracts in some industrial areas. Only 97 of the nation's 3,072 counties received 56 per cent of all war supply and facility contracts awarded through the first half of 1942, although these counties contained 35.4 per cent of the nation's population. Furthermore, distribution of contracts among these 97 counties varied considerably. Some major industrial areas benefited more than others, receiving a much larger proportion of war contracts than their relative contribution to the 1939 manufacturing output.

Such important shifts in population and income have far-reaching effects. They aggravate the shortages of consumers' goods, especially those of a durable character, in the areas of concentration. After the war, these new concentrations of population are likely to continue and will accentuate the need for consumers' durable goods. In addition, they will necessitate widespread new construction of homes, schools, churches, shopping districts, and transportation facilities.

REDISTRIBUTION OF WEALTH AND INCOME

Postwar consumer markets will be affected considerably by the redistribution of wealth and income now taking place. A number of potent factors are tending to weaken the middle and upper income classes and to change the character of their demand:

(1) Rising prices have reduced the purchasing power of past savings and of present relatively fixed salaries and investment incomes. The higher prices rise, the farther the purchasing power of these classes will fall.
(2) Corporate and personal income taxes drastically reduce the net incomes of these classes. The heavy corporate taxes prevent the payment of higher dividends and in some cases actually force dividend reductions. Personal income tax rates fall heavily on the people in these income brackets.
(3) On the other hand, both money wages and real wages have been allowed to rise. Labor's share in the national income has risen from 65 per cent in 1939 to 70 per cent in 1942. Between August, 1939 and November, 1942, weekly money wages have risen 61.7 per cent and the cost of living, 21.5 per cent, resulting in an increase of 33.1 per cent in the weekly purchasing power of the average worker.
(4) The farmer's share of the national income has risen from 8 per cent in 1939 to 11 per cent in 1942, representing a 36.5 per cent increase.

As a result of this redistribution process, the shares of middle and upper income groups have declined from 27 per cent of the national income in 1939 to 19 per cent in 1942. This decline will be much more drastic as labor and farm income increase and new salary limitations and the new surtaxes take effect.

Evidence showing the change taking place between 1935-36 and 1942 in "optional spending power" (difference between net income after taxes and the cost of food, clothing, and shelter) in the various income classes was derived recently by Compton Advertising, Inc.,[4] from basic data developed by the

[4] "An Estimate of How American Spending Power Has Changed in Six Years."

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National Resources Committee. The findings may be summarized as follows:

Income Groups	*Optional Spending Power Billions of Dollars* 1935-36	1942
A	6.7	5.7
B	2.7	4.9
C	3.5	9.3
D	4.5	19.6
E	.4	7.5

This shift in income together with increased employment has brought an increase in the marriage rate and in the separating of families which doubled up during the depression. This was, undoubtedly, an important factor in stimulating the sales of consumers' durable goods before their production was curtailed for war purposes, and it will continue to create a deferred demand for these products.

There will be a marked change in the character of the whole consumer market—including both durable and perishable commodities—as a result of this new distribution of wealth and income. The relative rise of the laboring and farming groups in the income scale and the decline of the upper and middle classes mean a shift to mass production and marketing of large quantities of utility type goods and a reduction in the output and consumption of the finer, more genteel things—the lavender and old lace of American living. Chain stores and certain types of department stores will benefit more than others by this shift.

SAVINGS

Savings of war workers will be an important factor in stimulating postwar markets. The Department of Labor estimates that the savings of workers' families will be about 70 per cent higher in 1942 than in 1941. Fifty-seven per cent of their increase of income is being saved. The Department of Commerce estimates that the savings of all individuals were $7.4 billion in 1940, $12.9 in 1941, and $26.2 in 1942. Savings are likely to continue to increase because of price control and the growing scarcity of consumer goods available for purchase. This increase in savings will pay off family debts of all sorts, leaving an unencumbered base for future instalment credit and will provide, in addition, a storehouse of purchasing power.

As a result of these four factors, there is apt to be an unprecedented demand for consumers' durable goods after the war. Automobiles, as an illustration, will be desired in large numbers not only to replace those worn out during the period of suspended production but also because of the increase in the number of family units, the greater purchasing power of the masses, the desire to take advantage of new designs and lower operating costs, the shifting of population to new locations, the hunger to travel after restrictions are removed and modern highways open frontier regions. Similar considerations will affect the demand for many other kinds of consumers' goods. It is not surprising, therefore, that the survey of postwar needs made by the U. S. Chamber of Commerce re-

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vealed that within six months after combat has ceased 2,100,000 families intend to buy automobiles; 1,500,000 intend to buy refrigerators; 1,200,000 intend to buy washing machines, radios, stoves, living and bedroom furniture, rugs, carpets, linoleum; 900,000—vacuum cleaners and electric irons; 600,000—sewing machines and dining room furniture; 300,000—electric kitchen mixers.

Turning from the outlook for consumer goods, the market for new construction in the postwar period cannot be accurately estimated from its activity in the period since 1929. During that period, great emphasis was placed on construction undertaken by public authorities while a depression existed in private construction. This tendency is likely to be reversed in the postwar period, especially because an overwhelming housing shortage is fast developing. This shortage is a result of a number of factors: the gradual growth in population; the rise in the marriage rate; the reestablishment of homes temporarily broken by war; the shifts in population stimulated by war industries tending to be permanent; the savings of war workers; the return of the automobile to normal use; the lack of normal replacement during the last decade—replacement of dwellings destroyed by fire, replacement of aged and substandard buildings; and the drastic curtailment of house building during the war years. During the last decade, approximately three new dwellings have been built for every five additional families which have been formed. Of our present stock of approximately 37,000,000 dwellings, about 7,000,000 are ready for replacement, 2,000,000 of which are on farms alone. Competent authorities estimate that about 1,000,000 new homes a year could be used during the decade following the war. As in the ordinary consumer market for goods, the redistribution of wealth and income will further increase the tendency to build houses of moderate size and price by mass production methods encouraged by prefabrication and the use of light materials.

Building more dwellings also means building more commercial buildings, educational buildings, theaters, industrial plants, public utilities, etc. According to the Department of Commerce, the ratio of residential to non-residential construction has been $1.00 to $1.20. In addition, construction will be stimulated by the rebuilding of poorly planned cities and run-down urban areas. A further possibility is new building for industries born out of wartime technological advances. If reasonably full employment does not develop as a result of private postwar industrial activity, it is common knowledge that federal and some state and local authorities have plans for a substantial construction program. At the end of 1942, the deferred demand for all kinds of construction was conservatively estimated at $2.5 billion, and it will continue to grow.

Besides construction, other parts of the broad market for producers' goods will offer at least a latent demand for the output of heavy industries. Many types of machinery and equipment are wearing out at unprecedented rates as a result of all-out war production. Also, many machines are becoming obsolete as a result of technological improvements. When materials become available again for the making of more efficient machines, competition will gradually force factories to adopt them.

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Railways, for example, have increased their speed and efficiency, carrying larger loads longer distances with the result that they handled 30 per cent more business in 1942 than in 1941, with 30 per cent less rolling stock than they had in 1929. Wear and tear on equipment and fixed railway properties were the heaviest in railway history. They are handling today's record traffic with 73 per cent of their steam locomotives and 41 per cent of their freight cars over 20 years of age. Locomotives are now reconditioned less frequently, and the repair and replacement of worn equipment is handicapped by the scarcity of materials and labor. The obvious result will be the need for a huge rehabilitation and modernization program involving the building of modern, efficient cars and locomotives, grade and curvature improvements in the roadbeds, heavier rail and electrification of dense traffic sections, modern signal systems, and the relocation and building of new stations and terminals for passenger and freight traffic. This entire program may be accentuated by improved technology and design.

This is symptomatic of what is happening to the equipment of other industries under the speed of war output. At present, wear and tear is enormous both in factories and on farms with little possibility of replacement while the conflict endures. Whether the large replacement of producers' goods will reach full bloom immediately after hostilities cease, or whether it will be a long drawn-out halting process, hinges largely on industry's ability and opportunity —in spite of tax and other wartime handicaps—to accumulate adequate reserves for repairs and new additions to plant and equipment by the time peace arrives. Inflexible operating costs and other important production factors previously mentioned may cause hesitation to embark on a program of heavy capital expenditures. If industrial management and investors have sufficient confidence in future business returns, economic stability, and freedom of enterprise, they will undertake heavy capital expenditures which will provide a sustained demand for the various kinds of capital equipment and will generate favorable reactions in the consumer industries through steady employment of workers. The market for producers' durable goods also depends vitally on the degree to which the market for consumption goods and new construction is stimulated within a reasonable time after the close of hostilities.

Agriculture offers another large postwar market for many materials and finished goods required for farm production and living. The factors contributing to agricultural demand in the postwar period are numerous, and include the following:

(1) High farm incomes, liquidation of debts, savings, and some assurance of sustained demand for farm products both here and abroad

(2) Resumption of the tendency to mechanize farm production—still far from completion—by the use of more tractors, combines, corn pickers, and cotton pickers, together with the necessity for repairing and replacing of farm equipment worn out under pressure of war production and lack of farm labor

(3) New machinery required to handle and process new crops for indus-

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trial use, such as soybeans for plastics and rubber, potatoes for commercial starch, trees for paper pulp, guayule and cryptostegia for rubber, and flax for cigarette paper

(4) The further growth of rural electrification, and the resulting new demand for electrical goods

(5) The rebuilding and repair of farm buildings, inadequately maintained during the long agricultural depression, and the opportunities for use of prefabricated farm buildings

(6) The increasing use of fencing as a result of the growing diversification and rotation of farm crops and livestock in order to conserve soil fertility

The widespread agricultural regions of this country, indeed, offer postwar markets for very substantial quantities of manufactured goods of many varieties. Moreover, the physical output of agriculture—taken as a whole—is relatively constant from year to year; and since the farmer cannot discontinue production, his demand for manufactured goods acts as a stabilizer for urban industrial output.

Finally, foreign markets are as yet a little-known factor in postwar market predictions. Certainly, there will be potentially large markets for perishable and consumers' durable goods, machinery, and building materials of all kinds in the war-ridden devastated countries of the world. But are we as a nation willing to become internationally minded enough to permit payment for our exports by imports of foreign goods and services? Are we willing to permit some industries which have a natural export advantage to prosper, while others are depressed by foreign competition? In order to develop our exports to South America, are we willing to accept direct payment for them in the form of imports of agricultural products, or indirect payment in the form of imports of British goods, which would balance South American food and raw material exports to the British Isles? Will we sell our heavy machinery and equipment to China and India and the countries of South America in order that they may eventually satisfy their own domestic needs for many manufactured products and, perhaps, raise their tariffs against us or compete with us in world markets? Will we again forget that despite our rich natural resources we are dependent upon outside supplies for certain raw materials—a lesson which the closing of the Pacific should teach us? If we can answer all these questions affirmatively and unflinchingly, our foreign trade will make us prosperous in the long run, and we shall contribute to the peace and prosperity of the whole world. On the other hand, a return to the nationalistic fallacies of the past quarter century will bring world conflict and declining trends in our foreign trade after exports have satisfied the direst needs. There will be temptation to lapse into this nationalistic policy soon after the war, because, through imports at this time of essential raw materials from South America and elsewhere, this country may find itself in the role of a debtor nation to some countries and possessing export advantages until those debts are counterbalanced. In the long run, however, it is essential that we permit imports to a far greater extent than occurred since World War I. If our export business is handled

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through government-controlled cartels, as some propose, this would be an artificial factor alternately stimulating and retarding one industry after another as the maneuvering in domestic and world politics affected the conduct of the export cartels. It is to be hoped that we shall wisely follow a policy of freedom of opportunity for all in foreign trade.

e. *The development of new products and of facts regarding the possible markets for them*

Besides production capacities, postwar business conditions, probable industrial trends, and kaleidoscopic market alterations, the market for new and improved products should be analyzed. Throughout industry, war requirements have stimulated the application of scientific knowledge in an effort to increase production, utilize available materials, and perform new tasks. In all probability, very little publicity will be given to these developments until after the war when producers will endeavor to convert them to peacetime uses. Electronics, now aiding in secret plane and submarine detectors, may revolutionize the transmission and application of electricity in heating and cooking, radio and television, wireless lighting and telephony, industrial processes and controls. Chemists, in freeing industry from dire shortages by developing new materials from various substances, have learned how to obtain more powerful fuels, rubber, and plastics from petroleum, new drugs and industrial chemicals from bacteria and molds, hormones and vitamins from new sources, and other new substances from complicated molecular combinations. Contributing much to this progress are new tools such as the electron microscope, the cyclotron, the infrared spectrograph, and the ultracentrifuge. The fact that old equipment is wearing out will undoubtedly provide early opportunities for practical application of these new developments. The necessity for economy in time, manpower, equipment, and materials is a further stimulant. Consideration of a few changes in the consumers' and producers' goods industries will suggest their importance and the desirability of appraising their market effects.

Among consumers' perishable goods, foods show signs of change. The dehydration of meats and vegetables will eliminate weight, bulk, and perishability and thereby reduce expenses for packaging, storage, and transportation. As yet, however, very few dehydrated products are equal, in quality, to the canned or frozen varieties, and they are not so convenient for the housewife to handle. Frozen foods also have the advantage of preserving quality, but they require expensive methods of distribution. The further improvement of dehydration methods may permit savings in the expense of distribution which may be shared between farmers and consumers.

The automobile, among the many consumers' durable goods, may illustrate the changes to be anticipated. The belief is that—immediately after the war is ended—the 1942 models will again be placed in production in order to meet the large replacement demand. During the second year some improvements will be introduced, and by the third year radically new cars will likely make their appearance. While it is doubtful whether new designs will reach

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the point of perfection, predictions are made that the motor will be more powerful and yet more economical than heretofore, that greater speeds will be possible, and that the riding comfort will be improved through body changes utilizing transparent and other materials. A few of the specific changes under consideration are said to be: lighter-weight materials, engines in rear, rounded windshields, clear vision rooftops, more efficient carburation, sealed cooling systems, and hydraulic drives. Coupled with these are greatly improved engines and gasolines—both the result of satisfying airplane and other fast vehicle requirements.

There are those who predict a revolution in transportation after the war—believing that the railways will be allowed to wear out and that their place will be taken by airplanes. A careful examination of this question will show that there will be an important place for all kinds of transportation—trucks, busses, railroads, boats, airplanes, and pipe lines. The motor truck is most useful in terminal services, short hauls from shipper to receiver without transfer, and longer hauls under special conditions. Bus transportation has important advantages in short distance traffic and in light traffic areas not served by rail. The railroads and boats must always carry such bulk commodities as coal, wheat, cement, and iron, because their low value necessitates movement at a low cost per ton-mile. For a similar reason, the pipe lines may continue to carry increasing amounts of petroleum products and possibly extend their services to the movement of powdered bulk commodities. The airplane's advantage is in providing speed, which is an important consideration for a growing number of passengers and express types of freight. A limiting factor is that airplane ton-mile costs are many times higher than railroad costs, and further reductions in the former may be matched by railroad modernization—the possibilities of which are tremendous. This, however, does not preclude much more extensive use of both commercial and private planes in the postwar period. It merely means that all kinds of transportation will provide a demand for large quantities of materials—materials of improved composition and design. Closely related to the progress in transportation will be the radical improvement of long neglected terminal facilities for boats, railroad freight and passengers, trucks, busses, and airplanes. One of the most important factors in the reduction of costs of most kinds of transportation is the unification, coordination, and modernization of terminal facilities.

In construction, engineers are making revolutionary progress. Dr. Charles M. A. Stine, vice president of E. I. du Pont de Nemours & Co., Inc., recently pointed this out when he said:[5] ". . . (In housing) prefabricated sections, which can be easily handled by two men, will permit flexibility in architectural designs. New insulating materials, making possible light walls that will be several times as efficient as heavy masonry ones, will allow the use of revolutionary structural principles. Plywood, plastics, rustless steels, non-ferrous alloys, various types of composition board, fire-resistant woods, ceramics, and synthetic finishes of lasting durability will be employed in profusion. For ex-

[5] *Molders of a Better Destiny*, p. 20.

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ample, stainless steel is indicated as a common roofing material of the future. It will last as long as the house and require no maintenance. Lighting will be automatic, governed by electric "eyes" sensitive to outside variations in the daylight. Air-conditioning units will filter out the pollens of hay fever and asthma. . . ."

Throughout the great number of industries making and using durable goods, many believe that there will be severe competition among materials of all sorts. There has been a tremendous expansion in the capacity for producing some of these materials, especially of metals, and some predict that aluminum, magnesium, and plastics will take the place of steel. Others deny this, and still others claim that many of these materials have complementary as well as competitive characteristics. The final costs of the finished article and its engineered advantages in fabrication and design are the ultimate factors in determining the relative importance of these materials. The utilization of various materials in combination may result in radical improvements in many goods and in the reduction of their cost, thereby permitting expansion in their markets and higher standards of living.

New and improved products coming as the result of invention and systematic laboratory research may be tested as to their marketability in various ways.[6] In each corporation, development of new products requires close cooperation among sales, engineering, and operating authorities as well as careful testing of the advantages of new products in the markets. *One method* of testing the marketability of new products is to make opinion surveys among possible users and, from these, estimate total potential markets. Possible prices which buyers would be willing to pay may be investigated in somewhat the same fashion. A *second method* is to distribute samples or descriptions and measure the market interest in them. A *third method,* not so well known but offering great possibilities, is to set up definite comparisons with products now in use or with variations of the same new products to determine which is preferred, what characteristics provide the basis for the preference, and what characteristics are unimportant. In the food industry, for example, ice cream, cereals, meats, canned goods, and the like have been compared on the basis of appearance, taste, odor, and touch, and the results have been given to laboratory research men in order to bring about modifications best suited to satisfy demand. This method has been used to determine the most desirable characteristics in automobiles, home equipment, and electrical apparatus. It can be extended to many other consumer durable goods and to a great many products and pieces of equipment bought by other manufacturers for use in fabrication. There is no serious difficulty in studying market demand for the products of inventive minds. Prudence dictates that before attempts are made to market these new products by extensive and expensive marketing and advertising programs, market research should be thoroughly used to provide the facts necessary in minimizing the attendant risks.

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[6] Cowan, Donald R. G., "Product Testing and Its Value to Business," *The Journal of Business of the University of Chicago,* October 1938, p. 349.

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Further, experimental marketing in limited areas is very desirable before national marketing programs are decided upon and undertaken. Sales experimentation with prices at different levels may help to determine how much each lowered price may expand sales volume. When this is matched with the economies of larger plant output, the point of maximum total profit may be more clearly indicated.

Today chemists, engineers, and others in the laboratories of many business corporations are being charged with the important task of developing new and improved products to utilize plant capacity after the war. In no subordinate way, commercial research should cooperate in this task. Commercial research, in fact, may serve as the pathfinder for technical research in several important respects.

First, it can determine the potential size of the market for a new product, thereby giving guidance on whether it is worthwhile to invest in the technical development of a product and, later, in plant facilities which will be adequate to supply the market but not larger than will be necessary for reasonable growth. This can be done by an analysis of various kinds of market data, sometimes adaptable from published sources such as governmental reports, and sometimes obtained by interview, observational, or mail surveys. There are very few corporations which have not experienced, at some time in their history, a costly plunge into the production of some new or improved product for which the market was too small or in which the customer interest had to be established at great expense in competition with established products.

Second, commercial research may give guidance as to what parts of a market may be entered most profitably and enable the technician to build the most suitable product for this purpose. The market for any product is really a group of markets, some larger than others. For instance, a five-cent cleanser will sell in very large quantities to the mass market, comprising the low income groups. A ten-cent cleanser will sell mainly to higher income groups which, because of their smaller numbers, will provide less than one-quarter of the volume of the five-cent cleanser. In other words, it makes a very important difference in volume, as well as in plant size, promotional methods, and commercial advertising media whether the decision is to develop a high-quality, high-priced product, or a product to be sold to the mass market. Commercial research can help in making a choice of markets and provide much information about the requirements of the chosen market, which in the long run may spell the difference between large profits and large losses. When an official decision is made as to which market to enter, the laboratory may then undertake to develop the product to fit the market pattern rather than to build an ideal product—the engineer's dream—which may be marketable only at a loss.

Third, technical research has the task of molding together in varying proportions the product characteristics which people like and dislike. Of course, the aim is to minimize the undesirable characteristics and maximize the others within the limits of a cost ceiling, but seldom can this be done correctly without adequate information regarding the ranking of buyers' preferences. Commer-

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cial research can measure the acceptability of a product's appearance, touch, taste, odor, or sound—depending upon the characteristics inherent in a given product. Furthermore, it can rank these characteristics according to their importance. Similarly, it can measure the acceptability of an industrial product in regard to quality of materials, design, performance, economy in use, and other considerations.

The fundamental principle is to obtain actual or potential buyers' comparisons; but the method of doing so will vary with the product. Two samples of food can be served to a representative number of consumers; their choice can be obtained; and the reasons for their preferences can be tabulated, thereby determining how and to what extent they reacted to the products' characteristics. It would be impractical to provide a number of people with two automobiles for comparative purposes, but, by the use of pictures and drawings, preferences are measured, even regarding such details as bumpers, windshield wipers, and lights. Similarly, the opinions of users of industrial products, machines, metals, and chemicals can be collected and analyzed.

There are innumerable opportunities for obtaining comparisons of products used in homes, offices, and factories, and the cost of obtaining this valuable information is usually very small. The method is applicable not only to old and new products, but to products in different stages of development. The elimination of product "frills," which the laboratory may like but the public may not care to pay for, may alone cover the commercial research cost. Willingness to pay for "extras" may be measured. Moreover, these product studies enable production and selling divisions to cooperate on a common ground of factual information in producing goods for the market. The same desirable characteristics which the skilful chemist strives to build into his product provide the themes for selling and advertising appeals.

Fourth, there is a new and practically undeveloped field of market analysis in relation to production processes. For example, the results of industrial products in use can be related directly to chemical and other factors entering into the making of steel, aluminum, and the like, and, based on statistical measurements of the tendencies inherent in numerous observations, corrective controls can be established. Similarly, the inter-relationship of prices and production costs can be more clearly defined.

In almost every manufacturing concern today, a senior executive has the opportunity to perform a most important service for the future well-being of his organization by bringing technical and market research into closer contact and understanding, possibly through committee organization, so that the latter may make its fourfold contributions as the pathfinder for technical research.

f. *The reduction of marketing expenses and the improvement of marketing efficiency through a careful study of the sales organization*

After the war, the pattern of all markets will again be affected by the competition of firms possessing not only the best products, but also the most effective and least expensive methods of distribution. Each industrial concern

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should give attention to the possibility of expanding its sales by reducing costs and prices. American industry has gone through a long period in which increased productive efficiency has provided cheaper, more varied products, and larger incomes to buy them. Although this tendency is still inherent in plant operations, despite temporary setbacks during war activities, there remains for attention that important part of the consumer's dollar which pays for the marketing of products. The individual concern which can use its selling and advertising effort more effectively and can pass along savings in marketing expenses to its customers in the form of lower prices will sell a relatively larger volume and utilize its plants to a greater extent. Where these improvements in marketing can take place is a subject for commercial research in each business organization.

As in World War I, necessity has again brought about the elimination of many products which were expensive to make, because they were bought in small quantities by an insistent group of customers. In this category, for example, are bolts and nuts in odd sizes and shapes, and steel or aluminum made according to little-used formulas. Steel formulas have been standardized and reduced from over 2,000 to 200, and even among those remaining there are some of little importance from a volume standpoint. Electric light bulbs have also been standardized, and the number of available types has been reduced from some 3,500 to 1,700. Many industries continue to produce types of products which at one time sold in large volume but which are no longer important or profitable. Further progress towards simplification and standardization of products would be desirable in reducing production and marketing expenses and in making a given amount of selling or advertising effort more effective in selling the postwar mass market. Simplification enables the use of fewer brand names, reduces customer confusion as to the meaning of each, and makes it easier to establish the brand names retained.

Another important economy may be accomplished by practicing selective selling and advertising. It is the experience of many manufacturers and wholesalers that a small percentage of their customers account for most of their sales volume and, at the same time, incur only a small portion of their total selling expenses. It is of the utmost importance to hold good customers for the future and to develop similar prospects. Facts regarding the best outlets for each product, the "families" of products flowing through the same distributive channels and the current changes taking place in these channels would help to eliminate costly, haphazard marketing. By shifting selling and advertising effort to selected customers, channels, and families of related products, management may accomplish savings in expense and greater effectiveness at one stroke. As a further result in consumer industries, lower marketing expenses may enable expanded sales volume to take place through reduced prices. This is especially true for goods having a demand very responsive to price reductions. It should be borne in mind that the great masses of people are in the low income brackets, and when the prices of luxury goods can be sufficiently reduced, their sales volume to the huge mass market can be multiplied

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many-fold. Similarly, the marginal buyers of industrial goods can be induced to buy larger quantities.

This is an ideal time for most companies to make desired changes in their sales forces as well as in their distribution methods. It has been estimated that, because of lack of products to sell, only about 50 per cent of the salesmen normally employed by manufacturers and wholesalers are now on the payrolls as salesmen. The longer the war lasts, the greater will be the task of rebuilding each sales organization. Assuming that decisions have already been made regarding products to be sold and customers to be contacted, the building and motivating of a sales organization requires many steps, such as the proper selection of new personnel, the training of the new force and the revitalizing of the old, the adoption of plans to focus selling effort on selected customers and to increase the time of salesmen spent in direct selling contacts, the application of the most effective interview techniques, the setting up of effective compensation plans, and the establishment of adequate supervision, controls, and measures of performance. In all its phases, this major task offers the opportunity to apply the results of research studies to the end that the new sales structure may emerge on the most efficient and economical basis.

The selection, timing and training of salesmen is the very core of this task, and postwar policies in this respect should be formulated now. Unfortunately, a salesman is often hired without a fixed idea of the life pattern to which his characteristics should conform for better results. A start in the right direction can be made by cataloguing all the pertinent factors regarding each salesman and each applicant for a sales position. After a time, the contribution of the various characteristics may be evaluated simply by relating them to the ratings placed by sales supervisors upon the subsequent performance of the different salesmen.

In one study of 2,724 salesmen, the effects of various environmental and personal traits were studied, including father's occupation, upbringing in country or city, personal appearance, height, weight, education, age when hired, extent and characteristics of previous employment, and marital status. This was done by grouping and subgrouping the salesmen according to the characteristics, obtaining their composite ratings in each group and comparing these ratings for various groups.

Since these characteristics are known when employment begins, the study enables better selection of salesmen. For the type of selling involved, the study indicates that prospective salesmen, raised in the city, about 21 years of age, attractive in appearance, ambitious to learn as indicated by extra-curricular studies, and rated high in the preliminary training school turn out to be good salesmen. Neither height, weight, marital status, nor a college education seems to have any definite effect. In other types of selling, the effects of these characteristics may vary both in direction and importance. Furthermore, additional characteristics may deserve consideration. In selling industrial goods, technical knowledge—acquired by engineering and vocational training and by experience in production and fabrication—is important along with desirable

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personal traits. In commission selling, for example, whether a man is an only son, or is the eldest, middle, or youngest of the family, or has a wife that is belittling, whining, extravagant, mothering, indifferent, or helpful, may affect his sales performance.

This method of determining desirable personal traits in salesmen is subject to the limitation that it assumes sales supervisors to be capable of judging performance in different regional markets. Area, population, income, wholesale and retail outlets, roads, and many other market conditions affect performance. Different selling conditions require salesmen possessing different characteristics. Allowance for these factors must be included in any study of the elements making up a long-time program of selecting sales personnel in accordance with company requirements. Again, salesmen must be placed where their different characteristics will be most productive. This necessitates not only a knowledge of regional potentials, types and sizes of customers, and the like, but it would also seem advisable to know the physical elements to be encountered in covering the territory.

For example, one study showed that, on the average, salesmen spent approximately one-half of their time in traveling, reporting, and miscellaneous work. Somewhat over one-third of their time was devoted to selling and collecting and the remainder simply to waiting to interview prospective customers. These proportions varied widely between routes. Special reports of all sorts diverted the salesman's attention from the main job, which the sales executive should be aiding him to do, namely, maximizing his selling time and dividing it among customers in proportion to their importance.

Perhaps the most important long-range problem is the training of salesmen to use their selling time most effectively. How often sales managers instruct a new salesman in the characteristics of the products to be sold and then start him out on a route with an order book in hand and expect him to sell goods. Wasted effort and failures could be avoided if the simple elements of interviewing customers were known and were made the basis of a practice training course.

Every sales executive has a different conception of what these effective interview factors are. It is unsound to base a training course on limited experience. First, there must be observation of thousands of interviews and the relating of the elements in those interviews to the results obtained. This analysis will usually reveal a few concrete factors which determine the size of orders obtained. In one company, sales supervisors, as a group, listed 93 different factors which they thought important in the interview. The actual study, however, showed that the effective elements could be reduced to nine. Furthermore, it was shown that many of the salesmen's interviews contained no favorable elements, many of them only one or two elements, and even the best salesmen were limited in their use of them. By proper training and use of these nine points, this concern has since improved its business. A more thorough study in another company of nearly 5,000 interviews representing the efforts of many different salesmen disclosed a similar set of factors peculiar to

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that business. None of the favorable elements was found in 27 per cent of the interviews, one element in 25 per cent, two in 26 per cent, three in 17 per cent, and four in only 5 per cent. Notwithstanding this, the orders obtained in interviews where four elements were practiced were nearly five times greater than those obtained where none of the elements was practiced.

Similarly, in many organizations, there is considerable need for some research which, in time, would be helpful in various phases of the product advertising program. Study might be given to these and similar questions: Who and how many actually see and read an advertisement? Who should be reached by it? What product features are of real interest to buyers? What new advertising methods can be used effectively? How may advertising and salesmen's efforts be tied together to get unified effect? Changing conditions and the postwar outlook make it desirable to study all these problems seriously in order to obtain the largest return possible for the effort and money spent.

Present conditions present an unique opportunity for reconsideration of the proper balance between selling expense and advertising expense. Some companies rely on one or the other to an undue extent. There should be proper recognition of the division of labor between these complementary types of selling effort. With the mass market of increasing importance, greater recognition should be given to the economical methods of advertising in telling a uniform, descriptive story about products, and at the same time not underrating the importance of salesmen's contacts with customers. A company can lose by having too little advertising as well as too much. A very small amount of advertising usually has no effect, because it is lost in the maze of other advertising. It has to be enough to gain attention or the advertising expense might better be saved. The aim should be properly to balance and coordinate selling and advertising effort to the end that maximum results may be attained.

* * *

In this paper, emphasis has been placed upon the importance of starting now to plan the postwar sales structure, keeping in mind related financial and production problems. A flexible procedure has been suggested for surveying the needs, developing plans, and getting executive action which can be adapted to any corporation's use.

Commercial research is at the heart of this plan and should aid forward-looking executives in the immediate task of answering the following six major questions facing management:

(1) How much capacity will wartime output leave in your firm as a challenge for you to find markets?

(2) What happened to the output and profits of your firm and industry in the decade after the last World War?

(3) What demand will there be for your products at various levels of the national output and of the output of various industries directly related to your business?

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(4) What alterations are taking place in the characteristics of the markets, especially for your products?

(5) What new products can your firm produce and sell in harmony with the technological developments taking place and with satisfactory response from buyers and profit for your efforts?

(6) How can your distribution methods be streamlined and your selling and advertising efforts be made more effective, thereby reducing these expenses and increasing sales?

The answers to these questions will provide top managements with a thorough understanding of their marketing problems and will lead to a well-defined and more profitable program of action for each corporation in the postwar period.

Appendix

CLASSIFICATION OF FINISHED COMMODITIES, NEW CONSTRUCTION AND CONSUMER SERVICES BY THE U. S. DEPARTMENT OF COMMERCE

Consumption Commodities

Perishable

Manufactured foods and kindred products
Non-manufactured foods:
  Sales
  Farm consumption
Cigars, cigarettes, tobacco, and smoking supplies
Drug preparations and household medical supplies
Toilet preparations
Cleaning and polishing preparations
Magazines, newspapers, and other printed matter
Stationery and writing supplies
Miscellaneous household paper products
Toys, games, sport supplies
Manufactured household illuminating and heating products
Non-manufactured household fuels:
  Sales
  Farm consumption
Fuels for passenger cars.

Semi-durable

Clothing and accessories
Shoes and other footwear
Personal furnishings
Dry goods and notions
Semi-durable house furnishings
Replacement tires and tubes
Passenger car replacement parts and accessories

Durable

Household furniture
Floor coverings
Miscellaneous durable house furnishings
Heating and cooking apparatus
Refrigerators, washing machines, and sewing machines
Electrical household appliances
Other household appliances
China, glassware, tableware, and household utensils
Radio apparatus and phonographs
Pianos and organs
Other musical instruments
Clocks and watches
Jewelry and sterling silverware
Books and other durable printed matter
Writing equipment
Opthalmic products, surgical and orthopedic appliances
Monuments and tombstones
Luggage
Wheel goods, durable toys, and sports equipment
Passenger cars
Pleasure-craft

Producers' Goods

Durable

Factory machinery
Mining machinery
Construction machinery
General and miscellaneous machinery and equipment
Non-residential furniture and equipment
Durable containers
Professional and scientific equipment
Tools

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PRODUCERS' GOODS

Durable (cont'd)

Engines and turbines
Pumps and pumping equipment
Machine tools and accessories
Electrical apparatus and equipment
Farm machinery and equipment
Tractors
Office machinery
All other subsidiary durable equipment
Wagons and carts
Business motor vehicles
Motorcycles
Locomotives and railroad cars
Ships and boats
Aircraft

New Construction

Private residential (non-farm)
All other private
Public residential
All other public

Consumer Services

Housing
Home maintenance
Household utilities
Personal care
Transportation
Medical care and death expenses
Recreation
Other

* * * * * *

Chairman J. H. MacLeod (Vice President, Sales Division, The Hinde & Dauch Paper Co., Sandusky, Ohio, and AMA Vice President in Charge of Industrial Marketing): I am going to ask W. O. Jelleme, Director of Developments, Pacific Mills, New York City, to lead the discussion and suggest some pertinent questions.

Mr. Jelleme: First of all, I should like to ask whether it is not possible that, except in very large companies, a committee organization causes too much discussion and too little action. Can a committee be responsible for carrying out plans?

Then, to turn to Mr. Cowan's six points, should we not take into account the chance that we may find it wiser to scrap excess capacity (or get rid of it some other way) than to try to find markets for the products?

Also, I should like to point out that conditions following this war may be very different from conditions after World War I. Technological advances have been so great that it might be well for us to look at the situation from this point of view: How much are we likely to sell if we make no changes in our product and develop no new products?

Mr. Cowan brought out very well, I thought, the fact that statistical projections may be dangerous tools on which to rely, unless they are considered in the light of common sense, and his coverage of the subject of changing markets and changing incomes was so complete that I shall not attempt to add anything to it.

The last point, reduction of marketing expense, is certainly a challenging one. Should we not consider reducing marketing expense, not just by cutting our selling expenses, but by changing our distribution methods in such a way that somehow we, as individual companies or distribution groups, can reach the 59 cents out of the consumer's dollar which, it is said, is going into distribution costs? We should all profit because we should have bigger and better markets.

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Question: Mr. Cowan, you mentioned the possibility of using stainless steel for roofing. So much publicity has been given to the new markets for the lighter metals, magnesium and aluminum, and also to that for plastics, that I should like to know how you view the long-term trend for the steel industry. What new markets do you visualize?

Mr. Cowan: The answer is for the most part still in the realm of speculation. Really it depends more on engineering factors than on marketing factors. New markets may depend on the comparative, shall we say, efficiency of various materials under particular conditions and also on the cost of those materials—not only the first cost but the fabrication cost.

The engineering side is often neglected in ordinary popular discussions of the subject because, for instance, an airplane engine is primarily made out of alloy steel forgings—the final motor parts are machined from solid forgings. In the first place the electric furnace grade alloy steel forgings are just about the finest and soundest mixture of certain elements that can be obtained. The actual expenditure on fabrication is quite likely to be far greater than the original cost of the material. The work of cutting the material and machining it into an airplane engine takes away somewhere around 80 per cent of the steel of that original forging.

One kind of steel will machine weld or fabricate easier than another kind. Will it perform as well? I am comparing two kinds of steel; but, as a matter of fact, one can compare aluminum, magnesium, etc., according to their various properties. I am not an engineer, but I know that the tensile strength of ordinary aluminum is very much less than that of steel. On the other hand, aluminum is, of course, much lighter than steel. Which is better depends, then, on the particular uses the material is to be put to. The same thing is true of plastics. They have far less strength and greater cost on a per-pound basis. Up to the present, they have their place in uses where strains are not great. So, my particular view—and I think the view of others who have worked on this—is that there is a place for all these materials. It is not a pessimistic outlook.

Conferee: As manager of our international division, I should like to compliment Mr. Cowan on his presentation of the export problem. I agree that it is absolutely necessary for all of us to acquire a really international viewpoint and to understand that we must import if we expect to export. Only by that means can we develop real international trade and, what is more important, develop real international peace.

I wish Mr. Cowan had commented also on whether it will be possible to reduce our excess production capacity. It is my belief that, if private industry ends up with such a plan as that, the people of this country will demand that the government step in and keep the plants running at 100 per cent of capacity.

Mr. Cowan: On the question of scrapping, I think you have to look at each industry individually. To speak of scrapping blast furnaces, for instance,

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or huge rolling mills, is talking in tremendous terms. It takes close to a year to establish one of those units with all the steel and labor that is required.

Incidentally, that is one of the chief troubles industry encounters in trying to expand. Many people have passed too quick a judgment on particular industries. In the steel industry, for example, it would have taken much steel away from the war effort to have effected a greater expansion. In the alloy field alone, production capacity is five times what it was when the war began—it may be even more than that.

Therefore, I think the problem is to develop the market rather than to tear down all the heavy equipment, furnaces, etc., which have been built. Perhaps some of the more antiquated ones will gradually wear out as the war goes on while others will be too obsolete to operate profitably on peacetime uses. And that same thing is going on in other industries. The capacity problem is, in part, curing itself. Equipment of all sorts is wearing out at an unprecedented rate, and there is a shortage of materials for repairs and replacements now.

I think also that this question must be looked at from the standpoint of a particular division or department or plant of a large organization. Some plants are going to have no problem at all. Others are going to be over-expanded along particular lines, and there is going to be the question of readaptation to new production.

I raise the point here simply to stimulate thought within each company on the matter. I am inclined to think that there are going to be many spots in which we shall have over-capacity, and we shall not know what to do with it. That was true after World War I in a number of industries.

Question: Private enterprise cannot enforce buying. It must as before depend upon the whim of the buyer for a market. On the other hand, government can enforce buying through pump priming.

Therefore, should business men now divide the postwar planning job with the government, agreeing to assume the production and distribution risks if government can be depended upon to develop an intelligent non-antagonistic procedure for maintaining a reasonable velocity of money? Will it be possible for the government and the business men to plan this out together? Otherwise the government will step in and take it all over.

Mr. Cowan: In many lines we are going to have an extreme shortage of things after this war is over. The longer the war lasts, the greater the shortage; therefore the demand for things is going to be there, and business has a hope of making profits. I do not say it is going to make profits, but it will be able to produce.

Business, then, is going to try to meet the shortages. Take any industry, the consumer field, durable goods—everyone knows how things are wearing out.

In the matter of construction, I mentioned possibly a 1,000,000 houses a year, partly because we did not construct enough to meet our needs during the

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'30's. A number of authorities have developed those figures, in fact, some have set a higher figure.

In the heavier goods, I pointed out how equipment all the way through is wearing out. Every plant has a maintenance problem today, and it is going to become more and more severe during the next year or two.

Then we have new industries. The airplane industry, for instance, is a popular example. Then there is an entirely new one that not a great deal has been said about, electronics, with a new demand arising.

Thus I cannot be distinctly pessimistic about the rate of business operation, at least in the immediate postwar period. In fact, I think that the high rate of business activity during the 10 years following World War I was largely due to the wastage of World War I. I think we shall have a greater wastage to make up after this war.

I am somewhat more disturbed about other aspects of our economy than I am about the production side. I do not think the production and employment problem is going to be so big a one as that of restoring freedom of initiative and enterprise and getting back to more of a free trade basis—I mean both within each country and between countries.

Question: Is anything being done to enable companies and departments to keep their statistics and estimates on a uniform basis so that there will be a basis for regional and industry-wide discussions?

Mr. Cowan: The Department of Commerce, and the General Electric Company, have been working on that, and they have been doing a fine job. They have also been helping the regional groups and the Committee for Economic Development.

Now the Committee for Economic Development, under the chairmanship of Paul Hoffman, president of Studebaker, and also under the Department of Commerce, is setting out to provide that kind of general guidance and also to stimulate locally and regionally, the study of the figures developed.

I think, however, that the individual company must study its own particular situation. Those figures can only be of general guidance; and, in some cases, they are dangerous guides. We must take off from those figures and make a realistic analysis of our own particular situation and the changes in the market which have taken place. We cannot put too much reliance on the figures themselves, fine as they are as a starting point.

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With a Paper on Trends in Distribution

BY

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OVERHAULING THE COMPANY'S SALES ORGANIZATION

By DON G. MITCHELL
Vice President in Charge of Sales
Sylvania Electric Products Inc.
New York, N. Y.
and
Vice President for the Marketing Division
American Management Association

FIRST, let me say that I am fully aware that the war is not yet over. I don't believe there is a single person at this Conference who doesn't realize that we still have a tough road ahead to win this war—a road that will continue to require every ounce of energy we have right up until the final bell rings.

Realizing that, I still say that the time has come to set our sights for the task that is going to come to us as marketing men when the war does end.

If our production men could have had a year—or even a few months—prior to Pearl Harbor to get ready, they could have outstripped even the magnificent job they did, and made possible a considerably quicker ending of the war.

We marketing men have such an opportunity now; and in direct proportion to the extent that we take advantage of it, we can hasten the winning of the peace. Hence the theme chosen for this conference: "Mobilizing Sales Leadership to Win the Peace."

By winning the peace I mean converting from a wartime economy to a peacetime economy while maintaining a high level of employment through the operation of our traditional system of "free enterprise."

"Free enterprise" is capitalism. Capitalism is competition. And competition —the inexorable drive to do something better than the next fellow does it—is all my faith and all my aspiration.

THE AUTHOR Don G. Mitchell's first selling experience was with the McGraw-Hill Publishing Company, where he spent several years selling industrial advertising, later specializing in the type used during the '20's by banks, railroads, power companies, and chambers of commerce to attract new industries to their communities.

This led to his joining the Niagara Hudson Power Corporation as director of industrial development, and in this position he assisted Floyd L. Carlisle, then chairman of the board of Niagara Hudson, in a number of other industrial enterprises in which he was interested.

In 1933 Mr. Mitchell developed the paper container for milk and placed it on the market for the American Can Company; and shortly afterwards he introduced the tin can for beer for the same company. These operations led to his appointment as vice president in charge of sales for the Pepsi-Cola Company, where the problem was to take a relatively unheard-of product and build it into real prominence in its field. He became vice president of Sylvania Electric Products Inc. on November 1, 1942.

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It is my faith and it is yours. No one would be here if he were not interested in learning how he can do a better job of selling his company's products—a better job of selling them *competitively*—interested not merely in bettering his own previous year's accomplishments but, even more, in bettering his company's position in relation to that of companies selling similar products. That's competition—and to those of us to whom the profession of selling is dear, competition is more even than "food and drink and yet a roof above one's head."

FREE ENTERPRISE ON TRIAL

Now, there are just two observations I want to make about the free enterprise system. The first is this: If that system doesn't deliver, it has no right to continue; if free enterprise cannot maintain a reasonably stable economic world, a world free from violent dislocations and widespread unemployment, if it cannot support a state of affairs in which the standard of living of the whole population is constantly rising, if it cannot assure a decent measure of security for those who are willing to work for it—if free enterprise cannot do these things then surely it doesn't deserve to endure.

I think free enterprise can do these things—and I know that in the doing of them the sales executive must play a huge and vital role. And that brings me to my second observation about the free enterprise system. The game that marketing executives will play after the war will be a grim one. It will be for keeps. In terms of his position in economic society, it will be literally a life-and-death game for the marketing executive. If he loses, there will be no more sales managers, there will be no more salesmen, there will be no vice presidents in charge of sales. There will be only a lot of nice bureaucratic jobs, beginning with National Commissioner in Charge of the Office of Products Distribution. If the system of free enterprise fails, we'll have a new economic system, and who among you is brash enough to wager that we shall not be told precisely what to make and how much, what to sell, how and to whom?

As certain as death and taxes is this: If private enterprise cannot effectively distribute the goods, then government will.

In broad terms, I believe the marketing executive must set himself two major objectives. First, he must acquire a profound sensing of the immense new goal of the free enterprise system and of his own new and enlarged responsibility in the attainment of that goal. Second, he must acquire a scientific attitude toward his job.

I am horribly aware of the danger of words. To all men, and more particularly, I believe, to men who like ourselves have used them often so heedlessly, the reiteration of words often brings in time not meaning but lack of meaning. We mouth the rich phrases, toss them back and forth at each other—and after a while we find we don't know what in the hell they are all about. Take the words "free enterprise." We sit back and pat our bellies contentedly, and keep saying that free enterprise is wonderful, free enterprise is endangered, free enterprise has got

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to be defended. Dear old free enterprise. Dear old Cumquat High School! We've bandied the words "free enterprise" around so much that we're dulled to their meaning.

Get yourself in a nice narrow, selfish frame of mind—I'm not being facetious—and ask yourself, as a marketing executive, how you'd like to live in that economic world which pretty certainly will be ours if free enterprise fails. Maybe you like a regulated world. Maybe you like a world in which it is your little bureaucratic job to be a little dictator and tell other people just what they can and can't do—and in turn to be told by other little bureaucrats what you can do and what you can't. Think of that; think of that and its implications. One of America's outstanding industrial leaders was not long ago quoted as saying that while he certainly preferred the capitalist system, he had no doubt about his ability to get along in any alternative system; that if, for example, this country went communistic, he'd wind up as a commissar of something or other within 60 days.

I don't want to be a commissar of anything. I want to wage clean, lovely, competitive battle.

THE NEW GOAL

Bear with me on the words I have used to define the marketing executive's two major objectives. They are familiar words: "new goal, new responsibility" and "the scientific attitude in marketing." Bear with me—not with the old words, but with their meaning, their so-vital meaning to us all.

Here is an approximate statistical picture of the marketing executive's "new goal, new responsibility."

The moment an armistice is declared, war production is going to be very substantially curtailed. Most war contracts will be cancelled within a short period of time, even though we will probably continue to produce certain war goods at a substantially higher rate than prior to Pearl Harbor.

The best estimates that I can get show that we must expect a contraction from peak war production levels of between $75,000,000,000 and $100,000,000,000. This means that within a short period of time 20,000,000 workers in war industries will be seeking peacetime employment.

In addition to this, probably about 6,000,000 of the 9,000,000 or 10,000,000 men and women in the armed services will be back in civilian life and eager for jobs.

In this total of 26,000,000 people, let us say there will be several million, including many women workers, to whom jobs will not be essential. There will still be close to 20,000,000 people who will have a real need for employment.

To provide employment for 20,000,000 people, it will be necessary for us to achieve an output of peacetime goods and services of at least an additional $60,000,000,000 over and above the estimated $80,000,000,000 then prevailing. That is a total minimum output of $140,000,000,000.

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Do you realize what this means? The fact that in the boom year of 1929 we sold only $98,000,000,000 of goods and services gives you some basis of comparison.

It means that we will have to sell $1,000 worth of goods and services for every man, woman, and child in America. Furthermore, we will have to achieve this goal quickly, probably within a year or two years, unless we want to have millions of people walking the streets looking for jobs.

If we achieve this goal, it will give this country a higher standard of living than it has ever known. If we fail, it will, in all probability, be the end of free enterprise as we have known it.

THE SCIENTIFIC ATTITUDE

So much for the new goal of the free enterprise system and the marketing man's role in its achievement. That brings us to the second great objective that I posed for the marketing executive—the acquisition of a scientific attitude.

This scientific approach will, I fear, be forced upon us whether we like it or no. It will not be possible to sell $140,000,000,000 worth of goods and services in the postwar era unless we are able to give the public better products for less money than in pre-war days. And we must accomplish this while continuing to pay labor the high hourly rates to which it has become accustomed during the war. This means that every possible method of eliminating waste in the process of distribution must be employed.

I predict that in the postwar period department stores will operate on smaller mark-ups, jobbers and distributors will operate on shorter discounts, independent retailers will learn to operate on narrower margins, and chain store merchandising will again grow by leaps and bounds.

We must, therefore, ask ourselves whether marketing, as compared with the other branches of management, has been derelict in adopting a scientific approach to its problems. We know that, in the field of marketing, there exists a vast amount of scientific, semi-scientific, and pseudo-scientific literature. We have had a great deal to say about scientific methods of organization and operation, about measurement of advertising effectiveness, about exact determination of the most effective sales appeal, about proven standards of selection and training of sales personnel, about synchronization of sales effort with population shift and income change, about mathematical description of markets, and so forth.

TWILIGHT OF THE HOOPLA

I am very much afraid, however, that we have paid lip service, not real devotion, to science in sales management. And I warn you that, after the war, we can do the things we must do only if we do the things we have not been doing. We have not been scientific—we marketing men—and we must be. Our pre-war stuff isn't going to be nearly good enough. We are all pretty clever fellows; we have done a lot of feinting and some elegant acting, but the technological age has

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caught up with us. It is twilight for the hoopla, the rah-rah, the successively bigger doses of inspirational pap that have been, together with a nice sense of price trimming at the right moment, damn near our whole stock in trade.

Selling is going to become less glamorous in its approach, but a lot earthier and more effective. We will learn to rely less on intuition, more on testing; less on shouting, more on psychology; less on hunches, more on measurement.

We are going to preserve free enterprise, but neither free enterprise nor the competition that characterizes it are going to be the same. That is why we, too, cannot be the same. We are going to be a lot better informed than we have been. More and more we are going to surrender the destinies of our work to reliance on facts. More and more we are going to rely on an incessant factual analysis of consumer wants and habits, of market composition, of product design. More and more we are going to adopt sounder policies of personnel administration, to inquire into newer techniques.

In short, we are, as individuals and as a system, going to inculcate marketing management with the scientific attitude—or else.

The *time* to start is now. And the best way of initiating one's self into the mysteries of the scientific spirit is to assume an attitude of true objectivity. The *place* to start is with a ruthless examination of our entire sales organization, of all our sales practices, sparing not even the things dearest to us, like the rugged individualists we assuredly are. We must question everything that we are and that we do and have done. We must hold nothing sacred, however long we may have used it. And, by the same token, we must weigh with all objectivity everything that is new to us—including the things we may once have considered and rejected.

STARTING FROM ZERO

There is a phrase that to me characterizes brilliantly this reaching for the scientific attitude. I am indebted for it to John M. Wilson, of the National Cash Register Company, who used it at a meeting of the planning council for this Conference. Mr. Wilson was telling us about certain aspects of his company's post-war planning, how they were questioning the effectiveness of a certain unit in the company's structure, with a view to reorganizing it. And then—let me quote Mr. Wilson in as nearly his own words as I can remember them:

> The further we got into it, the more we considered methods of reorganization, the more we realized that our procedure was wrong. And then one day we hit on it, and we knew we were right. We decided to start our plans by assuming that this particular unit didn't exist at all, and from that point to build the ideal unit of its kind. In other words, we decided to start from zero.

That, I think, goes to the heart of the sales executive's plans for a world at peace. Let's start from zero. Let's forget our fixed concepts of the pre-war period; let's fasten our eyes to the surely braver world of tomorrow, and from that base start our work. We're going to fashion, in our minds and on paper, our design of the perfect marketing organization; we're going to scrap all our

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pretty notions and retain only the indisputable facts, the proven facts—the basic, raw stuff of the scientific method.

It is to the scientific spirit in marketing management that this Conference is dedicated. It is going to be a stern meeting to sit through, because it is designed to give out great hunks of this raw stuff of science—and that's not quickly digestible. But, once digested and used, it builds an extraordinarily healthy, vigorous body.

SUBJECTS FOR RESEARCH

If we are to build a successful postwar marketing organization, it is obviously going to be essential that we know what channels of distribution that organization is going to operate in. We shall have to know how those channels of distribution are going to differ from similar channels in the pre-war period and what the relative position of each factor in the distributive system is likely to be.

We are going to have to know what has happened to consumer buying habits as a result of wartime controls and which of these changes is likely to carry over into the postwar period. We've done without a lot of things during the war and used a lot of substitutes. How many of these things is the consumer going to continue to do without—because she has gotten out of the habit of using them? How many of the substitutes is Mrs. Consumer actually going to prefer in the postwar period?

We shall have to know how much money the consumers of the country will have to spend when the war is over and who these consumers are going to be. It is a cinch they are not going to be the same pepole who had the money before the war. We are going to have to give a good guess as to what these folks are going to spend their money for first—and whether they are going to try to spend it all at once or save a portion of it for a rainy day.

It is vital that we try to learn how many of the people who have the money are going to continue to have jobs and what sort of businesses those jobs are going to be in. We certainly know that a lot of people now working in airplane factories won't be working there any more. Where will they be working, and how much money will they be making?

If our rebuilt and retrained selling organization is going to do the gigantic job which is set for it, we shall have to be doubly sure that the products we offer consumers are going to be what they want to buy. We must offer them not only the type of product they want to buy but the style they will accept and the price they will be willing to pay.

We shall have to learn all we can about the new techniques in market research, in market analysis, in consumer testing.

If different people are going to have the money after the war, if they are going to live in different places, if they are going to want different things at different prices, surely it follows that we may have to learn over again how to advertise our products, because who knows but that these new consumers will respond to different appeals than those we used before the war?

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GOVERNMENT ATTITUDE

Finally, we must try to determine what the government is going to do after the war because on this depends to a large extent what our selling organizations *can* do. How long is the government going to retain controls over the civilian economy, and which controls is it going to retain the longest? We know that the government can't suddenly dispense with all controls, because a market chaos would immediately result.

However, the government can, for instance, dispose of its surplus stocks in a way that will help the conversion to a peacetime economy and thereby ease our marketing job—or it can do it in such a way as to make our marketing job very difficult if not impossible.

The government can dispose of the war plants it owns in a manner that will promote postwar prosperity; it can dispose of them in a way that will defer postwar prosperity; or it can decide not to dispose of them at all, but to operate them in competition with private plants. The last course would probably be disastrous to all concerned, including the government.

Similarly, the government can retain or terminate controls over such things as price, quality, and quantity of products manufactured in a manner which will practically assure an orderly return to civilian production, or it can retain or terminate them in a manner that will be stifling to the whole economy.

All these things are of vital interest to us marketing executives. It behooves us to learn all that we can about every one of them; and although we cannot guarantee that this Conference will supply you with specific answers to every query, we can promise you, in the first place, that the speakers who have been good enough to appear were selected because they are authorities on these very subjects and, second, that they are determined to give you facts wherever facts are possible—and expert opinion wherever facts are impossible to secure.

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MAJOR TRENDS IN DISTRIBUTION

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THERE is a great deal of information now available from which it is possible to trace the current major trends in distribution. Most important among the sources of such information are the comprehensive reports of the Bureau of the Census for the years 1929, 1933, 1935, and 1939. These give statistics on the numbers of establishments and on sales, and many other facts about the various types and kinds of marketing institutions, not only for the nation as a whole but also for large areas, states, and even localities.

Since there have already been four national censuses, it is easy to note the changes that have taken place in the various marketing channels and plot their courses over the ten-year period. And while it is unlikely that there will be another census of distribution until after the war, statistics from other sources, such as the indices of sales changes collected by the Federal Reserve Board, the Department of Commerce, the Department of Agriculture, and many private statistical organizations make it possible to trace the trends in distribution with a fair degree of accuracy down to the present time.

In previous years, before these helpful sources of information became available, a person desiring to study trends in distribution had to content himself largely with estimates, approximations, or guesses. His conclusions could scarcely be better than his factual material. Now the difficulty has moved to the opposite extreme. There are so many sources of information and so much statistical material that the task of looking up the facts and interpreting them has become a full-sized undertaking.

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From 1915 to 1917 Dr. Nystrom was director of trade research for the United States Rubber Company; from 1917 to 1921, he served as sales and circulation manager of the International Magazine Company; and from 1921 to 1927, he was a director of the Retail Research Association and the Associated Merchandising Corporation of New York. During the NRA he served first as vice chairman and later as chairman of the National Retail Code Authority.

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The purpose here will be to attempt a brief general summary of a few of the outstanding facts presented by these various sources of information concerning recent changes in the distribution of goods. Transportation, which constitutes a highly important phase of distribution, will not be discussed. Export and import trends will be left out and, to simplify the project still further and so make it possible to deal with it in a paper of reasonable length, consideration will be given merely to the distribution of manufactured goods.

MAJOR CHANNELS OF TRADE

There were, according to the census of 1939, a total of 145,544 manufacturers in this country, the value of whose product for that year, less inter-plant transfers, amounted to somewhat more than $50,000,000,000. By the end of 1943, the amount had risen to at least two and one-half times the 1939 figure. It is still growing.

Manufactured goods normally reach their users through one or more of the following channels:

1. From manufacturer to wholesaler to retailer to consumers.
2. From manufacturer directly to retailers, such as department stores, chain stores, or mail order houses, to consumers.
3. From manufacturers directly to consumers, either industrial users or ultimate consumers, depending upon the nature of the goods.

These three are the most important channels of trade. There are, however, many variations. To illustrate: manufacturers often modify their distribution through wholesalers by making their primary sales through brokers or selling agents who, in turn, make their sales to wholesalers or industrial users. Manufacturers sometimes displace independently owned wholesalers by establishing branches of their own, either with or without stock-carrying facilities. These branches may, in turn, sell to other wholesalers, to retailers, to industrial users, or to ultimate consumers. Wholesalers, in turn, sometimes sell to other wholesalers.

The terms "wholesaler" and "jobber" are for the most part used interchangeably, but in certain branches, such as the fruit and vegetable trade in some of our larger cities, there is a distinct and separate classification of jobbers. In these instances, jobbers make their purchases from wholesalers and their sales to retailers.

Brokers or selling agents also vary the channels of trade, not only by selling to wholesalers and industrial users, but also by selling directly to chains and mail order houses.

The number of variations in these three major channels of trade is so great that any attempt to represent them graphically for any industry usually results in a very complicated diagram. In actual practice, most manufacturing concerns do limit their sales, either by choice or by necessity, to one or another of the major channels of distribution.

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THE PRIMARY OUTLETS

The main primary outlets for manufactured goods in the order of their importance as shown in the census for 1939 were respectively as follows:

Industrial users—that is, concerns that purchase goods for use in the production of other goods or for business consumption rather than for ultimate consumption—include such establishments as manufacturers, mine operators, oil producers, public utilities, transportation companies, government institutions, schools, hospitals, hotels, restaurants and clubs. According to the census of 1939, manufacturers' sales made directly to industrial users amounted to 26 per cent of the value of the entire manufactured product for that year.

Wholesalers and jobbers, according to the census definition, include not only the conventional types of wholesale establishments that sell to retailers, but also those which sell to industrial users and institutions. According to the census of 1939, such wholesale establishments accounted for 25.1 per cent of the total value of all manufactured products made during that year. Among the products largely distributed through wholesale establishments for resale to retailers are manufactured or processed food products, tobacco, textiles and dry goods, building materials, automobiles and automotive equipment and supplies, stone, clay and glass products, fuel, petroleum products and paper. Goods sold through wholesalers for resale to industrial users include some of the foregoing, but more particularly such products as metal goods, machinery, factory supplies of all kinds, hardware, and petroleum products.

Wholesale branches and offices operated by the manufacturers themselves, some carrying stock and others not, handled 22.4 per cent of total manufacturers' sales. Goods largely sold through such outlets include food products, tobacco, dry goods, paper, fuel and oil, rubber products, footwear, china and glass. Other products largely sold through manufacturers' own branches include goods for industrial users, such as chemicals, metal goods, and machinery.

Export sales either directly to buyers in foreign countries or through intermediary dealers located in this country accounted for 3.2 per cent of the sales. Manufactured goods exported in 1939 covered a wide range of items, but such items as gasoline, automotive equipment, food products, machinery and metal products bulked largest in value.

Manufacturers' retail stores including manufacturers' chain store systems, experimental stores, and sales through retail stores located on the manufacturers' premises, handled 2.1 per cent of the total sales. Goods sold through such outlets include apparel, shoes, mechanical equipment requiring a high degree of operating service, chemicals, coal and oil.

Direct to consumers retail sales obtained through house-to-house selling methods, including sales at retail to the manufacturers' own employees, amounted to but 1.6 per cent of total sales.

The remaining sales were interplant transactions and sales to manufacturers.

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Industrial sales by manufacturers made directly to industrial users, as we have seen, accounted in 1939 for about 26 per cent of total manufacturers' sales. Industrial sales in 1929 were 27.5 per cent of total sales, and in 1935 amounted to 26.2 per cent. It will thus be seen that for the years covered by the census the trends of industrial sales closely paralleled the trends of total manufacturers' sales. This, however, may not be a fair representation of the over-all trend of industrial sales. A considerable proportion of industrial goods sold by manufacturers through their own branches and, similarly, a considerable proportion of sales made through wholesalers, find their way to industrial users. Even at the retail level, there are considerable sales to such institutions as local mills, hotels, restaurants, hospitals, and schools classified by the census as industrial users. It may, therefore, be assumed that total sales of manufactured goods to industrial users through all classes of outlets amounted in 1939 to considerably more than 26 per cent. In an analysis based on a sample study made in that year, the census estimated that the total sales to industrial users amounted to nearly $17,000,000,000, or over 30 per cent of total manufacturers' sales.

INDUSTRIAL SALES TRENDS

As a matter of fact, industrial sales through the various channels of trade tend to vary considerably from year to year, depending upon business conditions and industrial activity. The variations in industrial sales are particularly sharp in such lines as building materials, power units, machines, factory tools, and equipment used in building new factories, mills, and institutions.

When there is a boom in factory and institutional building, the sales of these goods rise sharply. Thus, during World War I, from 1917 down to 1920, there was an exceedingly active market. During the middle 1920's also, the demand for industrial goods ran high. Another active market for industrial goods began on our entry into the present war. Current sales of industrial goods are running at about three times the 1939 rate and make up about two-thirds or more of the total value of all manufactured goods produced, instead of the more nearly average 26 per cent as in 1939.

During the depression years there is, as a rule, almost a complete cessation of such building. At the end of World War I during the years from 1920 to 1922, and then again in the depression years 1932 and 1933, the sales of industrial goods fell off very sharply. These declines depressed the sales of all industrial goods. That our present boom in industrial goods will sooner or later be followed by another decline when the present war is over is as certain as it is that night will follow day.

WHOLESALE TRADE TRENDS

Wholesaling, as the term is used in the census reports, covers a wide variety of establishments, ranging from conventional full-service wholesalers, of the kind forming the keystone of the orthodox channels, to manufacturers' own sales outlets, petroleum bulk stations, brokers, and selling agents.

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Service and limited function wholesalers of the conventional type made up slightly more than half of the total number of establishments in 1939, and handled 52.2 per cent of the total volume of wholesale trade.

Agents and brokers numbered but slightly more than 10 per cent of all wholesale middlemen, but accounted for more than 20 per cent of total wholesale sales.

Manufacturers' branches, both those with stocks and those serving only as sales offices, accounted for about 9 per cent of the total number of wholesalers, but handled nearly 25 per cent of total sales.

Petroleum bulk stations made up 15.2 per cent of the numbers, but handled only 7 per cent of the total volume of sales.

The remainder included miscellaneous types of wholesalers, and more especially assemblers of farm and other food products.

Wholesale establishments are characterized by their location, for the most part, in the larger cities or commercial centers of the country. The sales per establishment average much higher than average sales per retail store. Their ownership runs in relatively large numbers to corporations and partnerships, instead of individual proprietorships. Finally, the average age of wholesale establishments is considerably higher than that of retail concerns. In 1939 more than half the wholesale establishments in existence had started operation prior to 1930. More than one-sixth of all wholesalers had been established prior to World War I, and a total of 4,903 concerns were more than 50 years old. These figures not only reflect the fact that the wholesaler is one of the oldest of our distributive institutions, but also indicate that the wholesale system is still a highly active factor in the channels of trade.

The conventional or old-line wholesalers, so-called from the fact that they are the oldest of the middlemen in the various channels of present-day distribution, in 1939 handled about one-fourth of the total value of all goods manufactured in that year. Back in 1929, they handled 32.8 per cent of all manufactured goods. Despite this sharp loss, the wholesaler still continues to be the most important primary outlet for manufactured goods intended for consumer use.

The percentage decline occurring in the 1930's was accompanied by and possibly was due, in large part, to the sharp increase from 17.5 per cent in 1929 to 23.8 per cent in 1939 in sales made by manufacturers through their own factory branches and offices. It may be added that this transfer represents not so much a change in the wholesaling function as it does a change in the ownership and control of the wholesale operating mechanism. This explanation may not be very consoling, however, to the wholesale concern whose former business is now being handled by factory branches.

The share of total manufactured goods handled by wholesalers has undergone considerable change during the past half century. For many years, continuing down past the middle of the 19th century, the wholesaler served not merely as the typical but almost as the sole middleman in the distribution of goods between

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producers and retailers. The dominant position of wholesaling in the distribution of goods was first challenged in a small way back in the 1870's when the department stores, chain stores, and mail order houses first began to make their appearance.

By the early 1900's, these new types of distributors were gaining ground so rapidly that there began to be speculation as to the possibility of the elimination of the wholesaler, and the rapid development of the chain stores in the 1920's stimulated and supported these speculations. Naturally, as these newer forms of distribution grew, the percentage of total goods handled by wholesalers declined. Their share, which back in the middle of the 19th century closely approximated 100 per cent of all manufactured goods handled, dropped progressively, as we have seen, to about one-third in 1929, and to but slightly more than a quarter in 1939. In the meantime, however, the total volume of manufactured goods made and sold in this country pushed forward by leaps and bounds. Statistics on total wholesale sales prior to 1929 are not available, but a well-informed opinion on the subject is that the actual volume of trade handled by wholesalers, as measured by either tonnage or dollar values, did not actually decline. Indeed, there may even have been modest increases, but the gains made by the newer forms of distribution were so great as to cut the share of total trade handled by wholesalers.

Thus, while wholesalers held their own in dollar volume, they actually lost ground in relative importance to other types of distributors. The greater part of the gains in production and sales of manufactured goods seems to have been handled by these newer institutions, and their growth is evidently due to the increases in total trade rather than to any substantial loss on the part of the old-line channels of distribution.

Wholesalers have, in recent years, more than held their own both in dollar volume and in numbers of establishments. In 1939 their total sales amounted to $55,000,000,000. Since then, the sales of wholesalers have bounded upwards. In 1942 it was estimated that they had reached a total of $96,000,000,000. By the end of 1943, they were probably in excess of $100,000,000,000. And these gains have been made in spite of the sharp declines in the sales of durable goods, such as hardware, lumber, and household equipment which, as a result of the war, have not been available. The sales increases in apparel, food, drugs, dry goods, farm supplies and so on, have more than covered the losses in sales of the heavy durable goods.

In numbers of establishments, wholesalers increased from 168,820 in 1929 to 200,573 in 1939. There was also a gain of 3.4 per cent in the number of employees, and, incidentally, a significant gain in the number of women employed. In the periods covered by the census, the number of wholesale establishments grew more rapidly than the number of retail establishments. In 1935 there were 18.5 retail stores per wholesale establishment, but by 1939 there were but 17.4 retail stores per wholesale establishment.

It is also of interest that average expenses of all types of wholesaling in-

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creased from 9 per cent of sales in 1929 to 10 per cent in 1939, and this increase occurred during a decade in which wholesalers and retailers, generally speaking, made the greatest possible efforts to raise their efficiency and reduce their expenses, and many wholesale companies actually succeeded in doing so. The opinion may be ventured that the over-all increase may be due in part to increases in wage rates granted in recent years without compensatory increases in labor efficiency and perhaps to the development of specialty wholesaling, including the establishment of manufacturers' stock-carrying sales branches whose expenses of operation average somewhat higher than those of most of the other types of general wholesale establishments.

There have been many changes in the wholesale business in recent years that are not directly revealed by official statistics. Wholesaling, as now carried on, is very different from the wholesale business of a generation ago. Certain types of wholesale operation then common, such as national distribution of food products and other necessities of life from a single center, are no longer existent. Some of the wholesalers who formerly had a widespread distribution have become manufacturers or at least sponsors of nationally advertised brands. Others have contented themselves with cultivating local and nearby areas intensively and have let their far-flung former territories go to other wholesalers. Many others have become specialists or manufacturers' agents dealing in but a few items rather than in extended lines. Modern wholesalers have been very alert and adaptable in making necessary adjustments to fit the changing needs of our distributive system. All forecasts made during the past 40 years, and all likely to be made in the future, to the effect that the wholesale system will pass out may best be described by Mark Twain's reply to the rumor of his death: The report has been "greatly exaggerated."

Retail sales constitute a function of national income. People spend a considerable proportion, a fairly constant proportion, of their incomes through retail stores. Changes in income are promptly reflected in retail sales.

RETAIL TRADE TRENDS

The proportions of retail trade to national income during normal times range from 55 per cent to 60 per cent averaging about 58 per cent. Thus if the national income amounts to $100,000,000,000, the retail trade is likely to amount to about $58,000,000,000. The remainder of the income is used in the payment of rent, the purchase of services of public utilities, and outlays for services, amusements, doctor's bills, education, gifts, and taxes. What is left over constitutes the national investments and savings. For the war years, 1942 and 1943, however, the proportion of national income expended through retail stores declined to 54.7 per cent and 45.6 per cent respectively of the total national income. When the war is over and a peacetime economy is again established, it may be safely assumed that expenditures will for a time rise to higher than normal levels because of the accumulated savings and the deferments of purchases of

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goods long needed. Following this splurge in retail buying, I look for retail sales to settle down again and regularly take from 55 to 60 per cent of the national income.

Retail sales since 1939 have grown rapidly. In 1940 the total was estimated at $46,400,000,000; in 1941, at $55,600,000,000; in 1942, at $57,700,000,000, and in 1943 at the record high of $62,900,000,000. The 1943 sales exceeded the total national income of only ten years ago.

The gains in retail sales since 1939 have been fairly general in all lines in which goods have been available for distribution and use. There have, of course, been sharp declines in the sales of automobiles, auto accessories, tires, and gasoline. There have also been marked reductions in the sales of durable goods, such as refrigerators, washing machines, radios, and other heavy household equipment. The sales of lumber and building materials through the channels of trade serving ordinary consumers have fallen off precipitously. In spite of these declines, total retail sales have, as we have seen, rushed upwards. The losses in sales in durable goods have been more than counterbalanced by the gains in non-durable goods, such as apparel of all kinds, textiles, art goods, and novelties, and household supplies. In spite of the draft of 10,000,000 young men into the armed services, the sales of clothing in men's furnishings stores have run ahead of preceding years—in part, probably, because many such stores have gone into the women's and children's apparel field. Phenomenal gains have been made in retail sales of foods, jewelry, and restaurant service. The outlook seems to be that retail sales will continue at high levels so long as the war lasts, provided merchandise which customers want can be obtained and offered for sale.

TYPES OF RETAILING

A brief characterization of what is happening in each of the leading types of retail stores may be of interest:

Independent stores, the retail counterpart of wholesaling in the old-line or conventional channel of distribution, have had a record somewhat similar to that of wholesaling. In the ten years from 1929 to 1939, the percentage of independent store sales to total sales declined from 77.6 in 1929 to 70.7 in 1939. In numbers of stores, however, independents made a decided gain from 1,380,607 in 1929 to 1,624,665 in 1939. Since 1939, independent stores have made substantial gains in sales and presumably in numbers. Indeed, during the past two years, the indices of sales of independent stores have shown that such stores are making proportionately better gains than other types of retail establishments. It seems safe to estimate that the percentage of sales retained by independent retail stores at the present time exceeds the percentage of 1929.

Chain stores made their appearance back in the 19th century but enjoyed their most rapid growth during the 1920's. By 1929 chain store sales had reached 20.3 per cent of the total of national retail volume, and since then the percentage has varied only slightly. In 1939 the figure was 21.7 per cent. During

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the depth of the depression, that is in 1933, chain store sales reached a 25 per cent ratio, probably because of the fact that most of them concentrate on merchandising lower-priced goods of mass appeal. When the sales of luxury and higher-priced lines fell off, the sales of the lower-priced necessities of life did not decline so much and, consequently, assumed a greater proportion of the total retail trade.

In numbers of stores, the chains actually declined from a total of 151,712 units in 1929 to 123,195 units in 1939. Average sales per store, however, increased from $65,000 to $73,000.

During the late 1920's and early 1930's, the country experienced a wave of anti-chain store legislation, the purpose of which was to restrict chain stores or to put them out of existence; and a total of 19 states still have such laws. This legislation had several effects. In some states certain chain store organizations, particularly chains operating gasoline filling stations, began to transfer their units to individual or independent operators. Then, as the anti-chain store laws usually placed high taxes on each unit, many if not most of the chains began to raise average sales per store. This trend, as we have seen, is shown by the census.

But entirely apart from the anti-chain legislation movement, chain store distribution seemed to have reached a period of stabilization, if not of maturity, by the late 1930's. This stage was accompanied, not only by a slowing up in expansion of store units, but also by actual retrenchment. Even within states having no anti-chain legislation, many chain store units closed. It appears that, in the operation of chains as in other businesses, the point of diminishing returns had been reached. Store units badly located, others for which there may have been an insufficient marketing area, and still others for which competent management and rank-and-file personnel were unavailable were given up.

All this points to the conclusion that the chain store as a form of distribution has apparently grown up. The rapid spread that characterized this form of distribution back in the 1920's has ceased. Chain stores have now become a regular and stable part of the system of distribution. They are accepted and recognized by most branches of business. They are playing their part and performing their functions and duties in the communities in which they are located in much the same way as other retail institutions. Competition with other forms of retailing continues, but there is no longer any evidence of the unreasoning fear of chains among independent retailers and wholesalers that existed back in the late 1920's and early 1930's. Independents, both retailers and wholesalers, have found that they can hold their own with the chain store systems by using modern methods. The lessons of recent years have emphatically shown the fallacy of attempting to secure competitive advantages for any branch of distribution by discriminatory legislative measures. Independents and wholesalers now expect to meet chain store competition through increased efficiency, rather than through the double-edged weapon of government regulation.

Considerable publicity has appeared during recent weeks suggesting that the

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chain store companies, or at least some of them, may have plans for extensive expansion after the present war is over. Just how much there may be to these rumors remains to be seen. It may be presumed that chain stores, in common with other types of business establishments, hope to extend their activities and so make opportunities for employment not merely for rank-and-file workers, but also for executives, when their former employees, now in uniform or engaged in war work, return to them. But that there may be any rapid upward surge comparable to the rapid growth of the 1920's seems doubtful. It appears certain, however, that there will be extensive modernization of present retail stores. That the chain store type of organization may be attempted in lines of merchandise in which the chains have not as yet made much progress is also likely; and the trend towards the establishment of larger units, which began back in the 1930's will probably be resumed in the postwar period. That chain stores are likely to gain a considerably higher percentage of the total retail trade of the country in competition with the other existing forms of distribution may be deemed a rash guess. This does not mean that they will not continue to grow. As retail sales of all kinds increase, it may be expected that chain stores will participate in such growth.

Retailers' cooperatives have been widely established by independently owned retail stores to meet the competition of chains and to secure some of the merchandising advantages of chain store operation. Their growth may be considered as paralleling that of the chain stores, but with a lag of some years. Retailers' cooperatives, for the most part, consist of retailer-owned wholesale concerns, retail chains formed by mutual contracts rather than by ownership, and wholesaler-sponsored voluntary chains.

The volume of business carried on through retailers' cooperatives and voluntary chains is not recorded by the Bureau of the Census, since stores which are members are classified as independently owned. But private estimates of the numbers of stores in retailers' cooperatives and of their sales indicate that there are probably more members of such cooperative organizations than there are units in the chain store systems, and that the total sales volume of these concerns is probably equal to or greater than the sales of the chains. In the food field alone, it is estimated that retailers' cooperatives and voluntary chains have a volume of not less than 40 per cent of the total food sales. The American Institute of Food Distribution compiled lists for 1939 showing 753 such groups with a membership of 107,750 retail food stores. Of these, retailer-owned wholesale groups accounted for 161 groups with 25,042 members; cooperative retail chains which owned no wholesale units numbered 71, with 2,627 members; wholesaler-sponsored groups, or voluntary chains, numbered 521, with a total of 81,081 retail members.

While the chief reason for the rise and growth of retailers' cooperatives has been the fear of chain store competition, there are other excellent reasons for such cooperation. Even if there were no chains, or even if chain store

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growth were to cease, it seems likely that retailers' cooperatives would continue. There is value not only in the unification of merchandising and advertising which they advocate, but also in the education of members through exchange of information; and they offer means of grading up practices to the standards set by the most efficient members.

Department stores, both independently and chain-owned, enjoyed a rapid growth, at a rate exceeding the rate of increase in population and income, down to the late 1920's. Since 1927 the ratio of department store volume has maintained a fairly constant level in relation to the changes in national income. Progress in department store sales in recent years has been bounded quite definitely by changes in population and, more particularly, by the amount of income.

There is nothing to indicate any radical changes in department store sales. Most department stores are located in metropolitan centers; and the number, somewhat more than 4,000, is largely limited by the number of such centers. Where new cities have come into existence, or where there has been rapid growth of older cities, department stores have kept up by establishing new organizations or branches. In the last 25 years, very few department stores have actually closed; their status seems to be highly stable, although, where the downtown sections of metropolitan communities are losing population, as is the case in some cities, department store sales volume tends to be adversely affected In general, the popularity of department stores as trading centers is apparently more than holding its own.

Changes in urban population and their accompanying effects on retail location values do not within the present view seriously threaten the future of department stores. Whether department stores will be able to maintain their present high position in the distribution of goods is more likely to depend upon the management of such stores than on any other factor. If department stores lose ground, it will be because their operators have grown old, not necessarily in years but in mental flexibility. Stores that become careless of consumer good will, that begin to believe customers will stand for anything, are headed for trouble. Stores that tend to make shopping more and more difficult by shortening their hours of operation, by closing down on half-days and days when their customers would like to buy are bidding for oblivion. Stores that restrict delivery and other services are looking down a narrowing road. Retail executives who have forgotten that department stores owe their existence to not merely to the fact that they make shopping convenient but also, and even more so, to the fact that they make it enjoyable—and to the dramatic presentation of merchandise to that end—are in due course likely to be rudely reminded of these fundamental facts.

Supermarkets, which are big stores mainly devoted to the merchandising of food, have had a strikingly rapid development since the middle 1920's, and they continued to grow right through the depression 30's. Big markets, however,

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are not new in this country. Many cities, particularly on the eastern seaboard, have had large food markets for generations. The novel feature of the more recent development of supermarkets has been their tendency to locate in low-rent districts, or on well-traveled automobile highways. Most supermarkets, at least in their earlier stages, used abandoned factory buildings, garages, or other low-value structures, with inexpensive fixtures. They made much of mass displays of merchandise, specialized in well-known brands and staples. Most of them included meats, fish, fruit and vegetable departments, but in recent years, many have expanded into other lines, such as clothing, auto accessories, and variety lines. The supermarket appeals to the motorist by providing free parking facilities; but its major appeal to the general consuming public lies in the variety of goods offered under one roof, in freedom to shop at will, and in low prices. In the recent years preceding the war, there was a widespread tendency to advertise more in the newspapers, by circulars and by radio, to dress up or improve the appearance of the markets, to fit them with modern fixtures and conveniences, and to use store buildings especially adapted to supermarket merchandising.

The war with its ban on the use of automobile driving and the scarcity of tires and gasoline has undoubtedly checked the growth of supermarkets as well as reduced the sales volume of those in existence. Customers no longer travel long distances to shop for food as they did during the 1930's. But when peace again returns and the use of automobiles is resumed, it may be safely forecast that the supermarket development will again bound forward. There are, to be sure, limits to supermarket growth. A supermarket must have a sizable population from which it may draw its trade, for there is an economical trading radius beyond which it becomes unprofitable to appeal for patronage. In some communities there are already too many supermarkets. Experimentation in carrying other merchandise besides food and food products, well begun before the war, is likely to be continued in the postwar period. The competition with other food and grocery stores, both chain and independents, as well as with apparel, hardware, furniture, auto supply, and many other types of retail shops whose lines have already been introduced, and are likely to be still more widely introduced, is certain to sharpen.

Self-service has had a spectacular growth during the past 25 or 30 years. It began with the cafeterias, groceterias, piggly-wigglies, and other similar institutions prior to the first World War. It is today the typical way of selling in supermarkets. It has been found to appeal to many consumers, particularly in staples and other goods of well-known qualities requiring no special sales explanation or services. It has been a highly useful method of selling to masses of consumers whose purchasing power was seriously cut down during the depression and again, since the beginning of the war, as a means of handling a large amount of goods with a minimum of available help.

The elimination of sales service undoubtedly reduces the expenses of retail

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operation, but that it offers any general solution for the high costs of distribution is doubtful. Many lines of goods must be personally matched, fitted, altered, explained, and sold by personal contacts. Many people prefer the assistance and advice of salespeople when buying their goods. That self-service may be a suitable alternative for inexpert and incompetent selling such as prevails at the present time is undoubted, but with the return to more normal conditions, we are likely to see the development of intensive attention to better selling. Then self-service is certain to find its natural levels in connection with certain types of goods and with certain classes of customers.

Roadside retailing, aside from supermarkets, many of which were located at the outskirts of cities on well-traveled roads, had become a development of considerable significance in the last four or five years before Pearl Harbor. For many years, farmers' fruit and vegetable stands have catered to passing motorists. Since the early 1920's, gasoline stations and hot dog stands have sprung up to serve the traveling public. During the middle 1930's, attractive restaurants operated both by independents and chains began to make their appearance on well-traveled highways. Other types of retail establishments, including furniture and home furnishings stores, antique shops, florists, and even men's clothing stores, also made beginnings. It may be safely presumed that when automobile traffic again becomes possible roadside retailing may again assume considerable importance.

Consumers' cooperatives have in recent years made an aggressive bid for the attention of the consuming public of this country. There were, at the end of 1939, 3,698 consumers' cooperative establishments. This was more than double the number in existence ten years previously. The total volume of sales, however, amounted in 1939 to but .5 per cent of the total retail sales, although since consumers' cooperatives have developed chiefly in certain fields, the percentages in such fields as groceries, gasoline, and farm supplies are considerably more significant.

There has undoubtedly been a considerable growth in cooperatives since 1939. Recent estimates by the cooperatives themselves indicate that by the end of 1943 the total retail sales of consumers' cooperatives in this country may have amounted to more than 1 per cent of the total retail trade and considerably more than double the sales in 1939.

Consumers' cooperatives have enjoyed a much larger and important growth in other countries—such as England, Scotland, Denmark, Sweden, Finland, and Russia. There has been much speculation why the movement has been more backward in this country, but it is noteworthy that, except in England, there has been but little development of chain store systems and mail order houses selling at popular prices in countries where cooperatives are highly developed. The competition of the chains and the mail order houses with the regular or old-line retail systems has apparently been an important factor in checking the growth of consumers' cooperatives. Where chains and mail order houses do not exist.

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the consumers' cooperatives have forged ahead most rapidly, for the services these various forms of privately owned retail institutions have rendered the consuming public have included practically everything that the consumers' cooperatives could supply.

Among the various basic systems of consumers' cooperatives, the Rochdale system, so named from its beginning in the village of Rochdale, England, is about the best known and most successful. Nearly all the consumers' cooperatives in this country adhere, in the main, to the principles of this system. This year, 1944, marks the 100th anniversary of the Rochdale system, and plans have been widely made by consumers' cooperatives not only in this country but elsewhere to celebrate this anniversary suitably, and a part of the celebration will be an intensive drive to extend the membership and patronage of consumers' cooperatives. We are likely to see much of this drive during the coming year.

Consumers' cooperatives have had a great deal of help in the form of promotion and publicity from the national government and several of the state governments. For at least 25 years, the platforms of the major political parties have regularly gone out of their way to commend consumers' cooperation. Many of the states have granted these stores immunity from certain forms of taxation borne by privately owned businesses. Now consumers' cooperatives are seeking to have their profits exempted from corporate income taxes, on the ground that such profits really belong to their patrons or customers and not to the organization. It remains to be seen whether this proposal will gain the approval of the Federal Government. In a few states, notably in the Middle West, legislatures have gone so far as to authorize, and even order, all children instructed in the principles of consumer cooperation through the public school system.

Consumers' cooperation, in the opinion of some, is likely to be the form of distributive enterprise next to enjoy the most rapid growth in our economic system. This may well be true; but, if so, it will be because existing distributive organizations have failed to keep up the energetic drive to give American consumers the greatest possible values for their money. Whenever the existing types of retail institutions place too many difficulties in the way of their customers—such as requiring them to do their shopping on certain days or within certain limited hours convenient for the salaried executives and their unionized employees—the road will be well prepared for consumers' cooperation or some new form of retail distribution. If existing retail stores permit expenses of operation to become unmanageable, consumers' cooperatives will find the way to sell goods for less. If retail stores attempt any monopolistic controls or practices—limiting the amounts of merchandise offered, for instance or agreeing on prices—we can be sure that consumers' cooperatives will be on hand to spread like wildfire. There are undoubtedly a few people who prefer to belong to consumers' cooperatives because of a love of belonging and a belief in the principle of cooperation. Others are joining the cooperatives in the belief that such organizations offer an intermediate step preliminary to complete social control of all

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means of production. It may be doubted, however, that any considerable number are interested beyond the possibility of buying better goods under favorable shopping conditions for lower prices. The transfer of their patronage to consumers' cooperatives, if this takes place, will be due to dislike for the treatment, merchandise, prices, or other conditions accorded them by present retailers.

Government- or state-owned retail establishments have been frequently mentioned as possible alternatives for the distribution of goods to consumers. The most important group of retail stores of this classification are the 3,296 state-owned liquor stores now existing in 21 states, distribution of alcoholic liquors through this means having begun with the repeal of the 18th Amendment. But the record made by these stores during the past ten years is not sufficiently impressive to support a mass demand for government-owned establishments for general merchandise.

The most outstanding recent development of government-conducted retailing is to be found in the Army post exchanges which have expanded to meet the requirements of soldiers, officers, and their families in all parts of the world where the American military is in force. The number of such post exchanges now exceeds 8,000, which means that they rival the largest privately owned retail chains in existence. But there seems little reason to fear that the Army post exchanges will continue after the war, except to meet the requirements of the standing military organization then deemed necessary.

Advocates of government- or state-owned retail establishments point to the reported efficacy and economy of the Russian system of distribution with its Soviet-owned stores. These stores have virtual monopolies over the distribution of the necessities of life. Their services are severely limited. There is little opportunity for the exercise of choice. There is little, if anything, to indicate that such stores would appeal to American consumers. Certainly, so long as retail stores of the various types in existence in this country maintain a high level of efficiency, not merely in economy of operation, but in service to the public, there is relatively little to fear from government-owned systems of distribution.

COSTS OF DISTRIBUTION

Criticisms of the costs of distribution have been frequently made, not only by those who are opposed to the entire American business system, but also by competent students of business. It has been repeatedly stated that processes of production have shown enormous gains in recent years, but that the processes of distribution lag far behind. The production of a pair of men's shoes in a modern factory requires the equivalent of but one and one-half man-hours, whereas the processes of distribution of the same pair of shoes takes six and one-half man-hours. The distribution of other manufactured goods similarly requires from three to ten times as many man-hours as the production processes. T. V. Houser, vice president in charge of merchandising, Sears, Roebuck &

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Company, called attention last January to the fact that manufacturing costs in all American manufacturing had declined a full 33⅓ per cent between 1923 and 1940, in spite of the fact that average hourly wages had risen over 40 per cent. No such progress has been made in reducing the costs of distribution. In the marketing of goods, costs have not gone down. Indeed, in the period referred to above, marketing costs seem to have risen.

One of the most recent approaches to this problem of high cost of marketing was made by the Twentieth Century Fund and reported in a book *Does Distribution Cost Too Much?* published in 1939. Even more recently, the Federal Trade Commission has come out with an official blast against the costs of distribution of important food products in a study still to be completed, *Methods and Costs of Distribution*, the first part of which appeared on November 11, 1943. It may safely be presumed that criticisms of the costs of distribution will grow sharper, particularly after the war when jobs and incomes begin to decline to normal levels. Such criticisms, if constructively directed, may serve useful purposes. Suggestions for alternative systems of distribution are likely to be made. This likewise is as it should be, but an intelligent public must also continue to ask what alternative advantages may be gained and what alternative costs must be met if a shift is made to other methods of distribution.

POSTWAR PLANNING

Postwar planning is as necessary in distribution as in production. If industries are to be maintained and full employment provided, selling and distribution are certain to be important factors. Retailing, in particular, will have a highly important part to play: on the one hand, in interpreting consumer demand to producers and, on the other, in stimulating demand for the goods that producers make. The need for stimulation of consumer demand at the point of final sale needs no argument here. Window and store display and word of mouth retail selling have proved their promotive value many times over.

Postwar prosperity, so we are told, depends upon the maintenance of full employment. This, of course, is true; but it is not the entire truth. The processes of prosperity do not necessarily begin with employment. Let us not quibble about which comes first, but it should be clear that employment cannot go very far unless there are products and a market for those products. Any idea that prosperity can be insured simply by giving employment is merely the old WPA make-work fallacy all over again. We must, of course, attempt to provide full employment, but full employment can be maintained only if there is also full production of goods and services of the kind that people want and are willing to pay for. If the goods can be profitably sold, production and full employment will follow. If there is insufficient production, or if the production is in goods that cannot be sold, then full employment will last only until we get to the bottom of the employer's barrel—bankruptcy.

We must strive for full employment, but to achieve it we must determine what shall be made, how it shall be made, where and how it may be sold. It is

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to the marketing organizations of American business that we must look for the prime work of achieving postwar prosperity. Those responsible for advertising and selling will be the shock troops in winning the prosperity of the postwar period.

If what has been set down in this survey is correct, it seems fair to conclude that marketing in the postwar period is not only going to be very important to the life of this nation, but also that it is likely to become even more complex and technically difficult than it was before the war. Many changes may naturally be expected. There are likely to be new forms of marketing organizations, new marketing institutions, and many experiments in methods and devices of distribution. Marketing men brought up in the older schools of distribution who are hoping for a return to the good old days of simple trade channels and simple selling are destined to become excellent prospects for volume consumption of headache remedies.

The planning and execution of marketing policies, the performance of advertising and selling, even in its routine phases, is going to call increasingly for scientific background and thorough training. Just as an untrained man may be a menace in a war organization, so an untrained worker in the postwar period may prove to be a liability. It is certain that we shall use the resources of scientific knowledge in the selection, training, and supervision of postwar workers.

The American system of free enterprise has a long and exceedingly impressive record. Not the least of its contributions is the part that American industry has played in the present war effort. But in spite of its past record and its present accomplishments, it faces exceedingly serious difficulties in the future, difficulties growing out of the uncertainties and instabilities of international relations, the restiveness of consumers, the aggressiveness of organized labor, the heavy burdens of taxes, and the dark clouds of public regulation and control that have settled down upon our business system. That our system of free enterprise will be able to meet these problems successfully I do not doubt, but that these problems can be easily solved, that their solutions may be expected without careful thought and planning, is simple moonshine.

Our ancestors successfully met the conditions of pioneering. They had the hardihood, the ingenuity, and the will to meet the difficulties of their environment. Those of us now engaged in business, and all who are interested in the maintenance of the free enterprise system, face challenges no less difficult today. We too must have the stamina, the mental ability, and the determination to meet the challenges and rebuild a sound social and economic structure. To help with this is our privilege as well as our responsibility.

Discussion

Question: Dr. Nystrom, in the wholesale field, particularly dry goods, what is the average sales cost, exclusive of advertising, of the successful concerns that are selling nationally?

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Dr. Nystrom: The figure I gave was an average for all wholesaling in 1939. All kinds of wholesaling in 1929 averaged 9 per cent. Over the ten-year period, the figure increased to 10 per cent.

Conferee: Dry goods wholesale used to be 18 per cent, and is probably higher now.

Question: Is self-service in clothing stores a temporary thing?

Dr. Nystrom: It is not a temporary thing. It existed back in the 1920's and perhaps earlier than that, for all I know. There was also some development of it in the 1930's as a means of economical selling. But since the beginning of the present shortage of manpower, it has had a very considerable increase as a way of disposing of goods when sufficient manpower is not at hand.

I don't look upon it as an important feature in the future distribution of clothing, however, because clothing must be fitted, is selected with an eye to taste and so on, and the salesman's work in this field is very clear.

Question: Mr. Mitchell, what method do you suggest the government adopt for the liquidation of inventories and plants?

Mr. Mitchell: The first thing that comes into my mind is this: Not long ago the executive vice president of one of the large office equipment companies was discussing this very subject. "Do you know," he said, "the problem was taken care of prettily for us after the last war. The government stored all its surplus typewriters in a warehouse on the banks of the Potomac River, and they had a flood." Perhaps we should build a lot of warehouses on the banks of the Ohio.

However, I think one method would be to liquidate surpluses through the normal channels of distribution. Government-owned plants, in my opinion, represent a dual responsibility: I think the government should dispose of them to private industry, but I don't think private industry should expect to buy them for nothing. In other words, let us take the situation as a business proposition. Let us sell them in a competitive market for purposes for which they can be used.

And don't think any industry can take any plant and operate it successfully. The building of industrial plants will, in my opinion, continue in the postwar period, because we have learned that if a plant is not suited to your product, it is not a good buy, even if you get it for nothing.

That is as specific an answer as I can give at this stage of the situation.

Question: Must reduction in distribution costs come out of the hide of the salesmen?

Dr. Nystrom: I agree with Don Mitchell, that we are going to have increased efficiency in selling and that salesmen are going to be paid more than they have been paid in the past. And under the term "salesmen," I include not only the representatives of manufacturers, but also the representatives of wholesalers and retailers.

We are going to have higher wages in the retail trade. Of that I am sure.

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But the rise will be accompanied, I hope and believe, by an increase in efficiency through training.

Question: I believe you said that some 58 per cent of the national income goes through retail stores. Have you any idea of the breakdown between goods sold only for cash and those sold on credit?

Dr. Nystrom: I should say offhand that cash sales amount to nearly half—perhaps a little more than half at the present time. Exact figures are available, however; even the Census of Distribution for 1939 had a breakdown on that point, and the Retail Credit Associations have developed it since then.

Question: We are a small company, short-staffed in all departments, and heavily loaded with orders for a long time ahead. How does such an organization do a research job?

Mr. Mitchell: In that case, I should hire a good-sized outside organization for the basic research work.

Question: Mr. Mitchell has stated that if industry does not distribute, the government will. It has been suggested that the government may underwrite a part of the production of the plants it turns over to private industry, distributing the excess by means of a plan similar to the food stamp plan. Are there any comments on that?

Mr. Mitchell: I have heard that some such proposition may be under discussion; but more often, perhaps, I have heard that the excess may be disposed of in the export market. I should not like to see a food stamp plan tried, even on excess products; I still think any excess there may be in this country can be handled through the normal channels of trade. During the depression period of the '30's, for example, some of the big retail chain organizations attacked specific problems of surpluses, such as, I remember, canned peaches. When canned peaches were a drug on the market, one retail chain organization decided that it would move the surplus, and it did a terrific job. And the same thing happened in regard to fresh apples at one time. The food stamp plan may have been all right when people did not have the money to buy, but today they have the money.

Question: Do you think distribution costs can be reduced, and how?

Mr. Mitchell: I think distribution costs per unit can be reduced compared to distribution costs per unit in the immediate pre-war period. But you will notice that my statement is a studied hedge, because distribution costs must be defined.

For instance: There was a time when you could walk into a cobbler's shop, order one pair of shoes for $15, walk into the shop again to get them and pay for them. In that case, the production cost, plus the cobbler's overhead, consumed practically the entire $15, and the distribution cost was nearly zero. On the other hand, today a large shoe company which makes perhaps 20,000,000 pairs

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of shoes, will probably be able to sell you a pair of the same quality for $5, of which $2 may be the manufacturing cost, and something less than the other $3, the cost of distribution.

There is a case where the cost of distribution per unit has risen an infinite percentage, and yet everybody in the country is better off because of it. So you must be very careful when you talk about reducing distribution costs; instead, you probably ought to speak of reducing the total cost of manufacturing plus distribution—the result in the way of value given to the consumer. So much for over-all theory.

However, there are always considerable inefficiencies, and it is those inefficiencies that we should seek to remove. For example, every single man who is working on your sales staff has, believe it or not, a subconscious limitation on earnings, and you must gear your sales job to that limitation.

For instance, there was a commission salesman making $20,000; but he had a big territory, and we believed he was merely skimming off the cream. So we deliberately lopped off a third of his territory, and the following year he went out and made within $500 of his subconscious limitation—$20,000. The year after that, we cut his territory again, this time leaving him only one-third of the original area, and he made $20,600. He had made up his mind that he was going to make $20,000 a year, and that when he had made it, he was not going to do another lick. He had it worked out beautifully. There are subconscious limitations in your sales force. Take advantage of them.

One more instance: Have you ever been a salesman? When somebody handed you 200 cards and said, "Go out and cover your territory," what did you do? I can tell you what you did, because it was exactly what I did. The first time you went around the territory, you called on every single prospect. But on the second trip, you called on the first one and the second one perhaps, but skipped the third, because he was located in a little town and you had to wait half an hour for the bus to get there, or because he kept you waiting on a hard bench outside and was nasty to you when you did get in. So you said, "To hell with that guy," and you put the card at the bottom of the file. On the second trip, you made only 125 calls instead of 200; and about the fourth time around, you were down to about 50 pet accounts you called on all the time. No pressure that the sales manager put on you could get you to call on the marginal accounts again.

Find out how to pick up the marginal accounts at a cost which is not too great, and watch your distribution cost come down.

Dr. Nystrom: Certainly, I know that there are a great many men and women throughout the country who have been struggling with this problem of distribution costs, all the way through from the manufacturer to the retailer. But we have not made very much progress up to this time.

It seems to be very difficult to reduce the costs in retail stores. To some extent that also applies to wholesaling—probably much more than to manufacturing.

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The retail sale of the individual unit to the ultimate consumer is pretty much the same today as it was a generation ago, as it was 100 years ago, as it was 1000 years ago, as it was away back in the time of the Phoenicians, 2000 B.C. In spite of all improvements, it is still a unit sale proposition, in which the customer wants time to look at the goods and ordinarily needs and wants assistance.

In the variety trade, for example, retail stores have maintained a high efficiency of operation by offering goods that sell themselves. Sales people in these stores are there to give assistance in passing out the goods and to get the money, make change, and put the goods in a bag. Nothing more than that.

In fact, we have often been criticised for having no real selling. But if store clerks in the variety trade were to spend as much as three minutes on a sale, it would take the whole ten cents obtained from an average sale to cover the cost of selling alone.

Conferee: In other words, you make it easy for them to buy.

Dr. Nystrom: They do the buying themselves, and get a quick and simple service from our employees. In normal times it is a fine service. At the present time it is pretty poor. But in giving poor service we have no monopoly. I have been in the retail business in one way or another for 50 years. I have had an opportunity to observe a good deal over these years, and I have never seen sales service so low. Any change that occurs from now on is going to be for the better.

Some retailers have moved in the direction of the variety trade by placing the goods on sale, on open counters, counting on them to sell themselves. Others have grouped their goods in new ways in order to sell a greater volume per customer. In some stores when a woman comes in to buy a hat or a dress, she ends by buying several other things as well—not because of any pressure, but because she is reminded by the nearby displays. There are several things like that which can be done to raise sales efficiency and lower costs, and they are the beginning of what Don Mitchell calls the "science of distribution." We have a great deal more to learn along these lines.

But I don't think we can promise so much progress as has been made in reducing costs in manufacturing, where all labor has been eliminated other than that of a high-priced union man who occasionally touches a button and where there is a continuous movement of materials from the raw to the finished state. That is mass production. We have mass distribution also, in the handling of goods in a wholesale way. But when you come to the ultimate consumer, you find an individual who desires to be waited on in a personal way. Nobody has been able to reduce the time or the cost of handling this individual sale very much for very long, except by such devices as self-service and self-selling. So while I am not pessimistic, I am not promising that retailing can entirely keep up with the procession in cost saving.

Question: Because of merchandise shortages, various types of retailers have stocked kinds of merchandise formerly though unsuitable. And now lines

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of demarcation between different types of retailers are becoming blurred. Are we to continue to have this blurring?

Dr. Nystrom: The answer will have to be merely an opinion, but I will give it to you for whatever it may be worth.

First, there has been an enormous number of substitutes introduced in the last two years, particularly in the last year. Some of these have been found inferior to the original articles in style or usefulness, and they will pass out as soon as better goods become available. (I am repeating what I know to be the common view of retailers on this subject.) In general, retailers are afraid of substitutes, and they expect trouble. They are trying to avoid having large stocks of these goods on hand when the war ends, for they expect to go back to the better goods as soon as they can.

Retailers are handling such goods now so that they may have something to sell. Consumers want them; and as a matter of fact, are spending rather freely. In World War I we had the silk shirt era; now we have something that might be called "the glamour era." People buy glamour today, and they pay enormously for it.

I recall vividly the stocks of high-priced goods offered in men's and women's lines back in 1919 and 1920, and I also recall the tremendous cuts in prices that were necessary to get rid of them. I don't think the problem will be so serious this time, however, because everybody is so very much on the alert for similar troubles.

Now about these lines of demarcation in the retail trades: Retailers who cannot obtain the kind of goods they formerly sold will probably try selling anything that they can get in order to stay in business. Today many are experimenting with new lines that they never handled before. However, the tendency for retailers to play in somebody else's lot began a good many years ago. There was quite a good deal of it in the 1920's and 1930's, and what we see now is merely a continuation of a trend that has been going on for some time.

What is going to happen when the war ends? Again I can only offer an opinion. A great deal of the overlapping is certain to cease when ordinary lines of merchandise are obtainable again. A hardware dealer who has put in a line of cosmetics is going to go back to selling hardware. But he is likely to continue to handle, let us say, home and household furnishings that he may not have handled before, particularly if he has introduced entirely new kinds of goods not available before.

But stores that have taken on new lines have a great many lessons to learn; and in my opinion, the education will be expensive. My experience has taught me the truth of the saying that a man who has been trained to be a shoemaker had better stick to his last if he wants to make good.

Let me give you an illustration from the variety trade field: Five or six years ago a good many of the department stores looked enviously at Woolworth, Kress, Kresge, and other five-and-ten cent stores, and apparently said to them-

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selves, "There's a wonderful business. These concerns are not affected by the depression. We ought to go into that field." So many of them put in five-and-ten-cent departments. Today, however, most of these ventures have petered out. The five-and-ten business does not seem to be the kind of business that a department store can handle efficiently and profitably.

On the other hand, I know of some variety stores which are playing with higher-priced goods. They are trying to learn the business, and they are spending plenty of money to do so. But whether the education will be profitable or not, I don't know. It would be my guess that when the war ends and popular-priced goods become available again, many of these stores will go back with a will to the sale of five-, ten-, and 25-cent goods, the kind with which they originally achieved success, I also believe that the stores which know how to handle style goods will go back to style goods, and stores formerly handling staples will go back to staples.

I don't mean by that there will be no overlapping. But that we shall have a very general movement of all kinds of retailers to general merchandise, I doubt very much.

Question: What scientific method should be used to attract men of higher caliber to what has been known as "the selling game" but which we hope to elevate to the professional plane?

Mr. Mitchell: Dr. Nystrom mentioned that we might not be able to do in merchandising what we have done in manufacturing—have a series of buttons and a fellow to push first one and then another. But we do have buttons for salesmen to push—factory and home doorbells. Our trouble is to get people to push them.

To answer your $64 question, however, we shall have to go to the schools and colleges and teach the professors (not those like Dr. Nystrom) who seem to think that selling is forcing something down somebody's throat at a price he cannot afford to pay. We shall have to teach them that selling has a legitimate place in the scheme of things, that it is an honorable and decent profession. That has never been done, and, of course, it is a long-term job and a big one.

Now, as to scientific methods for attracting men of higher caliber: Among those who know selling today there is a very scientific method, and it works every time. All you have to do is to go down to Washington and get some of that stuff they print on green paper. Wave enough of it in front of the men you think would make good salesmen, and you can attract an enormous number of them.

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REBUILDING THE SALES STAFF

A Panel Session

I. INTRODUCTION

By ARTHUR A. HOOD

Director of Dealer Relations
Johns-Manville Sales Corporation
New York, N. Y.

IN the matter of "Rebuilding the Sales Staff," I have a very strong conviction upon which I am going to dwell for a moment: that perhaps the biggest job we face in rebuilding our sales organization is rebuilding the sales executive group.

We hear a great deal about what is sometimes called the "climate" under which we are going to operate in the postwar period. I don't like that word "climate" because it indicates too ethereal a thing. With 1,250,000 laws on our books, I think the term "framework" might be a better and more accurate one. Straightening out that framework is going to be a job of piecework—treating the nails, the bricks, and the two-by-fours of which the frame is made, and erecting the kind of framework which will enable distribution to do its job.

MIRACLE AND DEBACLE

We hear also a great deal these days about the miracle of war production, and we are a little smug about that word "miracle." We forget that every winner of every war in history has produced enough to win. Economic history has a way of repeating itself, like every other type of history. Every time the miracle of war production to win is repeated, it is followed historically by a debacle of depression. That succession of miracle and debacle—miracle and debacle—has gone on its vicious spiral throughout the course of economic history.

THE AUTHOR Arthur A. Hood, director of dealer relations for the Johns-Manville Sales Corporation, has, through the company's management and salesmen's training institutes, trained 3,000 executives and 6,000 salesmen for 2,400 retail building material companies. He is the author of numerous books and papers on various aspects of building construction, sales training, postwar planning, and broad economic subjects.

Mr. Hood is chairman of the Postwar Marketing Committee of the Producers' Council, Inc.; a member of the National Committee on Vocational Technical Training; chairman of the Educational Committee of the National Homes Foundation; a member of the Business Committee of the National Planning Association; vice president of the Guild of American Economists, and director of the National Society of Sales Training Executives.

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The formula is simple. Comes war—then in succession, increased production efficiency, damned-up consumer demand, inventory depletions, peace, a tremendous production spurt, satisfied demand, accumulating unsold inventories, shutdowns, unemployment, depression; and, sooner or later, another war starts a new cycle.

The breaking up of that cycle is the real miracle ahead of us. I am going to try to show you that it is a miracle of sales management. That is why the training, retraining, and reorientation of sales management are so important.

This achievement will have two interrelated parts: first, to plan the strategy and tactics of distribution so that our production departments will have confidence to produce at full capacity; and, second, to create the full consumption necessary.

THE ACCUMULATING INVENTORY DISEASE

Only through adequate planning for the sale at a profit of the output of full production can we make full employment possible. Then, in making planned sales a reality, we make full employment continuous. Many people seem to think that if we could only produce $150,000,000,000 in peacetime goods, our problems would be solved. It is true that in producing $150,000,000,000 in goods, we should create the buying power to purchase those goods, but under a system where buyers have free choice, and where it is necessary to sell at a profit, the mere existence of purchasing power does not mean adequate consumption.

Historically, that depression-creating disease which we might call "the creeping paralysis of accumulating unsold inventories" affects one industry after another until we have another downward swing in the business cycle.

The viruses that cause this accumulating inventory disease are inherent in democratic life under the profit system. They include the free choice of whether to buy or not, the free choice of what to buy, and the free choice of when and how much to buy, together with the detailed and involved process of buying and selling under a profit system.

The problem is complicated by distaste for their job on the part of the people who must perform at the most important point, namely, the point of sale to the consumer. A recent survey of factory employees showed that 80 per cent of those who had previously engaged in retail selling preferred to remain in production employment, and 50 per cent of those engaged in all other types of selling preferred to remain on factory payrolls.

Further, there is the fact that we are setting out to sell $50,000,000,000 more in consumer goods than we ever sold before—and a law of selling is that the larger the available supply, the more difficult to sell at an adequate profit.

INCREASE IN SALES MANPOWER

Fifty billions of extra volume—have you thought of what that means in terms of the number of sales slips to be made out, in contacts by salesmen, and in the numbers of times the cash registers must ring beyond what they have rung

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before? I don't know whether anybody knows what the average sale is, but let us take a five-dollar figure as the average, and divide that $50,000,000,000 into individual sales. That means 10,000,000,000 extra sales. And in turn, 10,000,000,000 extra sales mean extra sales power.

I have selected a figure of 22 per cent (you can choose your own figure) as the minimum increase needed in our sales organization. That means another 300,000 or 400,000 additional retailers, 150,000 or 200,000 additional sales managers at various levels, and at least 1,000,000 additional salesmen.

THE LOGISTICS OF CONSUMPTION

One of our pet phrases is the "know-how of American enterprise." Know-how will not be enough in tomorrow's world. Distribution executives will have to know when—where—why—to whom—by whom—and with what.

These new techniques might be called distribution engineering or even "the logistics of adequate peacetime consumption."

We must apply engineering principles to the logistics of peacetime consumption in a two-way flow—(1) the propulsion of the products from the factory into consumption; and (2) the bringing of effective consumer demand back into the factory in terms of productive employment.

In contrast to the logistics of wartime distribution, which start with the factory and work to the point of combat, the logistics of peacetime consumption start with the consumer and work back to the factory.

Production men and distribution men alike must integrate objective post-war planning around the principle that production and consumption are the roots and branches of the same tree. Neither can live without the other; neither can grow without the other; and the growth will be proportionate in both directions. The time has passed when a manufacturer can consider his products sold when they are on the shelves of wholesalers or retailers. It is the job of the distribution engineer to prevent the accumulation of unsold inventories at any point in the chain from factory to consumer.

There are four classifications of factory sales: (1) selling to wholesalers for resale to industry and trade; (2) selling to processors for remanufacture and sale; (3) selling to retailers for sale to consumers; and (4) selling into consumption.

TODAY'S OPPORTUNITY

Under the first three of these classifications, unsold inventories can accumulate and cause factory shutdowns and unemployment. But No. 4 is dynamic selling. Only inventories sold into consumption create sustained employment.

Fortunately, there has never been a time in the history of business so favorable to a complete overhauling of our distribution strategy, tactics, and implements. Inventories are—or shortly will be—at all-time lows. We can wipe the distribution slate clean and chart a more efficient structure from the point of sale

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and consumption back to the factory. We have both the time and the opportunity to make indicated changes and adjustments in our distribution structures with a minimum of friction and difficulty, and to plan and act with utmost care.

COOPERATIVE PLANNING

These complicated problems make a third stage of planning necessary, namely, cooperative planning.

Because of our fear of the anti-trust laws we have shied away from many forms of cooperative action which are entirely legitimate. Only through the most thoroughgoing *teamwork* can free enterprise bring about the miracle of adequate peacetime consumption.

We should not, however, confuse cooperation under the free enterprise system with "collectivism." In our modern, completely interdependent economy we must *cooperate* if the wheels of free enterprise are to move even for one day. Freedom to cooperate is that freedom which, under modern conditions, safeguards all of our other economic freedoms. But if we cannot cooperate voluntarily, we have to have laws, and, sooner or later, if we pass enough economic laws, we will have a state-controlled economy.

Cooperation within the free enterprise system is, therefore, the safeguard of our liberties.

In default of anyone else to do the job, why should not sales management of America write a platform for free American enterprise and then implement it by making free enterprise an entity?

Government is an entity: If the issue is government vs. free enterprise, what chance has enterprise against government as long as it is a hodgepodge of individual companies, associations, unions, and pressure groups, all lunging forward spasmodically, often in opposite directions, and pulling against each other.

Sales management *could* unite American enterprise into a team, all pulling together in harmony toward the common objective—an employment opportunity for every man willing and able to work under a system where each man is privileged to profit to his ability and retain his earnings in private property.

II. SELECTION

By J. E. SMITH

Employment Supervisor
General Personnel Department
Armstrong Cork Company
Lancaster, Pa.

ATTEMPTING to speak authoritatively before a marketing group is somewhat of a difficult assignment for one who has had little personal sales experience. However, there exists today no man charged with the responsibility for employ-

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ment who cannot point to a greatly increased appreciation of the importance of the sales function as the result of hard-earned personal experience in recent months. I trust that you will measure my remarks by the scale of my deep interest in the selection and training of salesmen as much as by the fact that a personnel supervisor must necessarily consider the sales staff as but one of the major divisions of a business concern.

The general personnel manager of my company stated on another occasion: "This company purposes to continue in business interminably. Not only does it aspire to remain in business, but it is likewise the hope of our company that it may be recognized through the years that lie ahead as the leader in each field of industry in which it may be engaged. The attainment of this goal and the retention of this recognition depend primarily upon two things: first, the caliber and effectiveness of the men and women who are associated with our company; and second, the character and ability of our enterprise."

Convinced that the success of any business venture depends directly upon the effectiveness of its organization, we feel that no more important contribution to the security of a company can be made than to insure that it includes at all times only employees of the highest type.

Special war period conditions disregarded, competition within industry is becoming increasingly severe as time passes. The enterprise which survives is the one possessing an organization which produces better ideas than those conceived by its competitors. In the words of Kipling:

"They copied all they could follow,
But they couldn't copy my mind,
And I left them sweating and stealing
A year and a half behind."

An organization is an association of human beings grouped according to interest, temperament, and ability into one of several groups, such as research, engineering, production, sales, and staff.

Here we are interested in the sales group. I shall attempt to outline the methods which our company has used in building our sales force in peacetime—methods to which we shall at once revert at the end of the war—and not go into any detail about the type of program which we have been temporarily conducting during this war period.

The Armstrong Cork Company distributes a large number of both consumer and durable products through six major selling divisions, which are Floor, Building Materials, Glass and Closure, Industrial, Corkwood, and Export. Under peacetime conditions, these divisions sell some 360 products. To manufacture

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THE AUTHOR J. E. Smith, who is employment supervisor of Armstrong Cork Company, was born and educated in Philadelphia. He received his degree from Drexel Institute of Technology.

Mr. Smith was originally employed and trained by the Armstrong Cork Company for personnel work and, after working on various phases of personnel, was given responsibility for the recruiting and placement of all salaried personnel.

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these products, we have 17 factories in the United States and a number abroad. Each division is a unit within itself, with its own sales force, branch offices, managers, products, and merchandising methods, and is headed by a vice president who reports directly to the office of the president. We make use of all the common methods of distribution, selling to wholesalers, jobbers, and distributors. and direct to retailers and individual consumers, while in the case of one division. we have considerable business as contractor or subcontractor for the installation of our products.

Each division presents a unique sales problem and, accordingly, requires unique sales ability. Even within a division, certain products may be such as to make a technical background necessary for effective sales performance, while others do not require such specialized knowledge. In selecting salesmen for any of these divisions, we are in effect seeking men who have the qualities possessed by those who have been successful in the past in that division—and who are free of characteristics found in the past to lead to unsatisfactory sales results.

INTERVIEWING VS. TESTING

As will be demonstrated later, our interviewing for selection is a group task. with sales, personnel, and operating executives all participating; and as each salesman enters training, as he completes it and undertakes full sales responsibilities, his progress is followed closely by all who participated in his selection. This common interest has resulted in the creation, by sales and personnel jointly, of a number of "types" or standards against which we measure candidates for sales positions.

That such a general method of selection has proved satisfactory for us in actual practice is a matter of record in at least two ways: First, the turnover among our salesmen is so low that the loss or release of one is rare. Second, the majority of sales executives and commodity sales managers and a goodly portion of the other top executives of the company are men brought up from the sales ranks.

With such experience, we have not yet found evidence that aptitude testing has a real contribution to make. Testing, in essence, is measuring against a standard believed to be related to performance. To formulate an effective test for salesmen is difficult; for sales ability, as indicated by our own experience, is generally recognized to be something specific for the particular company or sales organization within the company. The "types" that we have come, over the years, to recognize as acceptable candidates constitute our standard, and there is no test yet devised that can measure the necessary qualifications for us as well as our interviewing procedure does. In effect, we "test" each applicant by campus and home office interviewing to determine whether or not he meets our specifications.

We do not wish to indicate that we have no faith in testing or that we are not interested in continually investigating such means of selection. But we feel

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that only limited progress has been made in constructing or validating tests for salesmen.

Now there are two groups from which any company can select salesmen: older, experienced men and young college graduates. We use both types, and our selection procedure is much the same in both cases. In recruiting experienced men, we write to several well-established private agencies and associations in the larger cities; and where checks have not been made by these agencies and associations, we request brief confidential statements on the individual's record of performance. We also check personal references, and any acquaintances the candidate may have within our organization. However, as space is limited and our company's experience has been mainly in the field of college recruiting, I should like to go into that phase of sales selection in more detail.

VISITS TO COLLEGES

During the early part of January, the personnel department learns from the sales divisions the number of college graduates to be selected for sales training in each unit. It is then our responsibility to arrange visits to a number of colleges and universities throughout the country for the purpose of interviewing outstanding candidates. In preparing for our visits, we advise the college placement offices of the positions for which we will be seeking candidates, outlining in some detail the job opportunities and the training offered. We send also complete up-to-date information on our company, its facilities, its products and the scope of its activity; and when visiting a college, we always take a list of the graduates whom we presently employ. This, as you will appreciate, indicates the general type in which we are interested. Also it is usually a good advertisement for the company, since college students look up to outstanding graduates and the companies for which they have chosen to work.

We regularly visit some 43 campuses and interview some 2,000 young men, of whom we invite 100 or so to visit our home office for one or two days at the expense of the company, each being selected prior to his visit for one particular sales division. Then, at the home office, interviews are conducted by as many of that division's executives and commodity managers as possible, as well as by several of our staff executives who have had long experience in judging candidates and who are keenly interested in the selection of the right type of men. Unless there is complete agreement on an individual by the sales division men, staff executives, and personnel, he is not offered a job.

CAMPUS INTERVIEWING

It may be of interest to some who have not had the actual experience of visiting college campuses to hear briefly a few points which we feel representatives of companies should keep in mind when planning their recruiting activities on college campuses:

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1. We feel that each individual should be given approximately the same amount of time in the interview.
2. There should be a smooth, constant flow of questions directed to the applicant—with the interviewer always maintaining full control of the interview.
3. Hurried campus interviews are not effective.
4. The fundamentals of good manners, finesse, patience, and sales tact should be practiced.
5. Facts concerning the individual should be obtained and clearly defined.
6. Interviewers should be well-groomed and presentable at all times.
7. It should be kept in mind that to the applicant the interviewer is "the company."

If such rules as these are not observed, the result may be unfavorable impressions which cannot be easily corrected and which, in some cases, might have a lasting effect on the company's reputation on the campus. At least, good will toward the company will not be stimulated.

The student is as interested in your company as your company is in the student. Here again I must stress the importance of presenting the facts about the company as fairly and honestly as possible. The types of positions available, the initial and follow-up training programs, if any, and the opportunities which the company offers should be described without exaggeration. Frankness and willingness to present the company as it exists instill immediate confidence.

We are proud of our sales training program, which was inaugurated some 23 years ago, our company being among the first to institute such a plan. It has received national recognition as an outstanding formal program for the selection and training of young college graduates for sales careers. Realizing that manpower is the lifestream of our enterprise, we felt that we must regularly inject young, enthusiastic, vigorous, intelligent and loyal men into it in order to survive competition and to grow over the years.

THE CAREER IDEA

There are two factors to consider here which, I believe, help to make our program attractive. First, our men are not selected merely for a sales position but for a career with the Armstrong Cork Company. The career idea which is justified by the fact that all promotions are made from within and in accordance with ability to perform the job, appeals to the college graduate. Second, our company owns and operates what we call the "Armstrong Manor," a large country home where our sales trainees are housed and fed during their training period at the home office. Many of us, I am sure, realize that it is often difficult for the college student to make the transfer from campus to industrial living. To assist our sales trainees in making this change, this country home is maintained. Here the trainees can find recreation, study and discuss the day's work together, and form numerous close friendships, which promote a desirable esprit de corps.

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QUALIFICATIONS SOUGHT

A few of the qualifications which we consider—not necessarily in the order of their importance—when seeking a college graduate for sales training, may be of interest. You appreciate, I am sure, that we cannot prescribe exact specifications and that flexibility is required in individual cases.

There are three "first-impression" qualifications:

1. A vigorous appearance is desirable, and good health an essential.
2. A student should have a neat, not flashy, appearance. "Good looks" are by no means essential, but the student should have a personality which in some way commands immediate attention. Nevertheless, a commanding personality without a record of accomplishment is not attractive.
3. The candidate should have a good speaking voice.

We cannot place too much importance on these three qualifications, for first impressions are usually lasting impressions. But there are six additional qualifications on which we put equal emphasis:

1. *Education*—Except for jobs requiring specific technical training, the course studied is unimportant. We are interested primarily in whether or not the student has been taught to think problems through logically and clearly and in whether or not he has the ability to reach a satisfactory conclusion. We must, nevertheless, make certain that he has a good command of the English language and is able to spell. Interests can sometimes be spotted in educational likes and dislikes.
2. *Earnings for college expenses*—We are quite interested in students who have worked all or a part of their way through school. We have found that this type of student gains valuable practical experience, has certainly demonstrated ambition, initiative, self-reliance, and knows the value of a dollar. He usually has confidence, cannot be discouraged easily, and has a more mature attitude towards job procurement and business in general. He views life somewhat more seriously than the student who has been given everything during his college career.
3. *Leadership*—Is the student a leader? Participation in extra-curricular activities is very important to us. Is the student sufficiently interested and well-rounded to go beyond the scope of his books in order to obtain a well-rounded education. The ability to get along with fellow students and to gain their respect is essential. Whether a student's interests are in athletics, fraternities, church or welfare work, campus politics, dramatics, or publications is not important to us. Our chief interest is in whether he has the ability to be a leader. Along with this, we are interested in his hobbies, since at times these are indicative of interests, versatility, ambition, and ability to lead.
4. *Character*—Good character is naturally a most essential quality. The school record, with faculty impressions and recommendations, should show readiness to accept responsibility and give an indication of the student's

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reputation on the campus. Self-reliance without conceit, and real initiative coupled with tact, are very desirable. Is the man a church member and does he participate with a fair degree of regularity? In many cases, we have found this to be quite indicative of good character.

5. *Family and social background*—In a mention of family and social background, our purposes might easily be misconstrued; however, we have obtained some clues from this as to the individual's possibility of success.
6. *College grades*—Finally, we face the controversial subject of college grades; and here I should like to point out that I am referring particularly to sales candidates. During the years immediately preceding the war, industrial concerns tended to emphasize scholastic attainments. But in our case, although there is a general feeling that an outstanding man should be in the first quarter of his class, we are not looking for this type if his scholastic standing has been attained at the expense of a balance between outside work, social life, and leadership and development activities. I might mention here that in the larger group of average or above-average students, some have considerably more to offer than some of those who are in the upper one-tenth or so of the class. If the student who is average scholastically is given the proper encouragement and assistance in developing his own line of interest, he will approach a top rating in his field.

RETURNING SERVICE MEN

The question will undoubtedly be raised: "What about returning service men?" To all of us, this will represent a large and important problem that must be handled as effectively and expeditiously as possible.

Our company, like many others, has a large number of employees serving with the armed forces. In the case of salesmen, our plan is not necessarily to reassign them to their old positions selling the same products in the same city or town. We are planning to bring them into our home office where the major portion of our training programs are conducted and study them individually in an effort to determine where they can be most effectively placed in our sales organization or elsewhere in the company. Then an applicable refresher course, which will vary with the individual and the sales organization, will be arranged; and after this retraining, they will be assigned to branch offices to take up activity similar to that for which they were responsible before entering the service. A blanket policy in this respect cannot be set up at this time, for the matter must be handled, as I have said, on an individual basis. In the case of men who may have had their college careers interrupted and who will be returning to the college campus for industrial placement, we shall have to place a great deal of reliance on the college placement directors.

We admit that we try to set a high standard for our sales candidates. One of our executives has capably summarized the company's point of view in saying:

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"The only thing we have which no other company can ever have is ourselves—the company—personnel selected and trained to work and think together. We build for the future of the business with every man we hire because we maintain a career organization. Each hour of training is in the nature of a permanent investment that will pay its dividends over and over again."

* * * * * *

Question: Would your philosophy and program apply to the consumer selling field as well as to the other three classifications of selling?

Mr. Smith: Because of the nature of the products which we manufacture and our sales organizations' methods of operation, we as a company have not had any direct consumer selling experience. Actually, ours is but one of several ways of building and maintaining a sales force; and any method must be adapted to the needs of the individual company. In my opinion, however, our philosophy would apply if a recruiting and training program similar to ours were carefully formulated and carried out with effective consumer selling as its aim.

Question: Have you ever employed a non-college graduate who had worked in another division, such as the factory or the office, as a salesman?

Mr. Smith: The answer is very definitely yes. Perhaps "employed" is not quite the right word. Perhaps I should say that we have transferred a selected group of our men to sales work.

Let me point out that an individual who comes to us with a college degree and enters our organization on a college level is not eternally blessed because of his education. In practice, at the time when we were conducting our sales training program regularly, at least one or two young men already employed were transferred to sales training every year. On the average, those who were transferred had three or four years with the company. We have had a number of very interesting cases of men without college degrees who have succeeded.

Question: What do your salesmen usually earn in their first, second, and third year after training?

Mr. Smith: I will base my answer on pre-war year figures, for we have had no formal sales training program since the start of the war. We hire all our sales trainees, whether they are technically trained or not, on the same basis—$125 per month. They continue on that salary until they complete their training, the duration of which ranges from six to nine months. At the end of this period, they are assigned to a branch office as junior salesmen; and, at that time, they are increased to $150. The following year they receive $175 per month, and from that point on, there are periodic reviews of job performance. Ours is a straight salary arrangement.

Question: Is the man who visits the colleges to recruit prospects a represen-

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tative of the personnel department or of the sales department, and does he recruit for departments other than sales?

Mr. Smith: A number of years ago, each sales division sent a representative to the college campuses to recruit its own men, but that proved to be an expensive method and did not necessarily permit of efficient contact on the part of the Armstrong Cork Company with college placement officers.

The personnel department now sends its representatives to the college campuses armed with the requisitions for all divisions and departments of the company (we do not visit campuses for sales trainees alone). Information on the varied opportunities which the company offers, as I have mentioned, is sent in advance to the colleges, so that we and the students can be prepared to discuss their interests and desires. This method has resulted in considerably more efficient and successful recruiting.

Question: Do you pay living expenses in addition to salary during training?

Mr. Smith: That is an interesting question and one which has caused our company some concern. Just what will be done after the war, I am not prepared to say. In the past, however, the sales trainee paid his own living expenses while in Lancaster, but traveling expenses were paid by the company when phases of the training program required visits to branch plants or branch offices, or perhaps a several weeks' merchandising trip.

Question: One company has found a test of the ability to learn of great value. What is your experience in this field?

Mr. Smith: Our experience in testing is negligible. We have conducted tests to a certain degree in some of our sales divisions—one in particular. Different tests were tried and, after a period of three or four years, some correlation was attempted. We met with little success. We do not believe, as I mentioned, that a test has yet been devised which can materially aid us in our sales selection procedure.

Question: Some years ago, we adopted a policy of hiring only college men who had specialized in a particular field. But these men are all ambitious, and there is not room for them all at the top. How do you meet this situation? I find such men are not satisfied to remain salesmen.

Mr. Smith: Because of the number of our products, the nature of our manufacturing and selling methods, the number of branch offices, etc., there are a number of better positions of a sales nature to which we can advance our men. For example, an individual coming in as a trainee would step to a junior salesman's rating, then to that of a full-fledged salesman. From then on, there are positions as assistant branch manager, branch manager, assistant district manager, district manager, commodity manager at the home office in Lancaster, assistant general sales manager, general sales manager and vice president and

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general manager of the sales division. There is really sufficient room for men who are primarily interested in sales to advance in that field. We also believe in transferring individuals from one division to another. If we find that a man is not entirely suited to or happy in sales, we have manufacturing and other phases of our business into which he might fit; and that interchanging of men has proved to be most effective over the years, particularly from the standpoint of individual growth.

Question: What actual experience have you had with a battery of aptitude tests? Have you found specific faults with aptitude testing and, if so, what are they?

Mr. Smith: An aptitude test, I understand, is built around a work sample, a situation which is similar to a job. Each organization's sales problem differing, we feel that it is difficult to set up a standard test to meet each organization's requirements satisfactorily. Most tests point out the exceptionally well qualified and those who are below average, but we are not primarily interested in the unusual cases. We feel that no test yet formulated will show any real differentiation in the average group.

We have tried a limited number of different tests. I cannot say that we have actually given them a very thorough trial because we don't hire enough salesmen each year to evaluate results accurately. We could make a start and reach some results, favorable or unfavorable, over a period of six, eight, or nine years; but at the moment, we cannot say that results have been such and such for the Armstrong Cork Company. You are probably familiar with the interesting and apparently successful efforts of several major life insurance companies to develop aptitude measuring methods for their branch managers, particularly those based on analysis of personal history sections of application forms. This work does indicate that, with a large enough sales group, aptitude testing may have considerable possibilities.

III. SALES TRAINING

By R. H. MOULTON

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THERE are a lot of things about training that are controversial, but one thing is sure. Every sales manager must answer *three* questions before he can hope to have a well-trained organization. These questions are:

1. Whom am I going to train?
2. What should these people do, and what is the best way of doing it?
3. How can I be sure they know what to do and how to do it?

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No matter what industry you are in or what method of distribution you use, these questions must be answered. And the way in which they are answered will determine the effectiveness of your sales training.

Without getting into the theory of determining training needs, I will first discuss the immediate and timely answer to the first question. Later I will cite some actual examples of how the last two were answered in our company before the war. From this experience, we have established some principles to guide us in the preparation of training programs to meet our immediate problems. Because they are fundamental, these principles will apply to your training problems in spite of the differences that may exist in organization structure, distribution structure, or type of product.

WHOM AM I GOING TO TRAIN?

In every sales organization there are several levels of operation: Management, intermediate management, and salesmen on the firing line. All the people, at all levels, must know what to do and how to do it.

There is not space enough to explore all the types of approach for each separate problem encountered in each group. But if we agree that the time has arrived for postwar preparation rather than postwar planning, we are immediately faced with at least two training needs which call for action:

1. We must be ready with a complete plan for training the salesmen on the firing line. This is the group we must rebuild and prepare for the intense competitive period which will follow the war.
2. We must prepare our intermediate management group to be proficient in the selection and training of the new salesmen. The effectiveness of our future sales organization will depend to a large degree on how well this supervisory training job is done.

Since space will not allow a discussion of both, I shall stick to the need for a program for training the salesmen. Not only is this need the more universal, but it must be met first.

We cannot expect our sales supervisors to train salesmen unless we provide the best possible plan. So now we know whom we are going to train—the retail salesmen. The next question is: What should these people do, and what is the best way of doing it?

WHY DO WE HAVE SALESMEN?

We at General Foods arrived at the answer to the first part of this problem—the what—in a rather unusual way, which worked for us and

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In September, 1942, General Foods lent Mr. Moulton to the U. S. War Department for six months to serve as chief of the training section of the Industrial Personnel Division, Headquarters, Army Service Forces.

Mr. Moulton is a member of the Society of National Sales Training Executives.

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will work for you. We started by asking some of our sales management people, "Why do we have salesmen?" There were a good many different answers, but after all the opinions were in, it was found that the real reason was much broader and more fundamental than we had expected. We had rather thought the answer might be, "We have salesmen to sell." But in our case the answer was, "We have salesmen to help the grocer sell more of our products to consumers." By crystallizing this simple objective, a cornerstone was laid to support everything that followed.

We then asked ourselves, "What can a salesman do to help a grocer sell more of our products to consumers?" To put the question in another way, "What are the things your salesman can do to increase the use or consumption of your product that you cannot do better or cheaper in some other way?" In our case it boiled down to five things:

1. Make a sales presentation on the product.
2. Obtain a good shelf position for it.
3. Display it either on the counter or the floor, where it will attract the attention of the consumer.
4. See that the grocer prices it competitively.
5. Encourage the grocer to mention it in his advertising.

These five things were the sum and substance of the salesmen's niche in our distribution picture. It may sound very simple and obvious, but I must caution sales managers and training directors that a great deal of consultation with intermediate sales management and considerable field research is necessary if you are to be certain that you have the correct and complete answer for your organization.

At this point we are pretty far along toward the accomplishment of our training mission. We know exactly why salesmen are important and what they can do to build our business. Incidentally, any part of sales training that does not help build a business will pass away quickly and without benefit of clergy.

DISCOVERING THE BEST METHODS

Where do we go from here? We know exactly what our salesmen should do but we still do not know the best ways of doing it. How do we find out? There are two groups of people who know the answer:

1. Your sales management group.
2. Your best salesmen.

Ask your management group. Probably no two division or district managers will give you the same answer, but in the methods they describe will be some fundamentals that work.

In the case of your best salesmen, however, it has been my experience that asking is not enough. Since they are not so articulate as the management group, you must go out and work with them. Observe their methods at first hand, and record the fundamental things that make them click.

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When you are satisfied that you have learned the methods that work, get the support of sales management. At this point you have found out whom you are going to train, what they are going to do, and the best way of doing it.

Now let us see whether we can set up any principles which can be followed by any company in the first stages of solving this total problem. I believe we can, and it seems to me these principles are:

1. Be sure you know the *real* reason you have *salesmen.* Look beyond the ability to sell.
2. Ask yourself the question, "What should these men accomplish that I can't do better or cheaper some other way?"
3. Consult all levels of sales management, and do a lot of work with your best salesmen.

At this point we have considerable information in our office at headquarters. What shall we do with it? Until we do something with it, none of our salesmen can benefit from all the time and energy we have used so far.

SALES MANUAL

How can we be sure that all our salesmen know what to do and how to do it? Shall we tell them? If so, how? Is telling enough? Of course it isn't. Here is the way we answered the question before the war:

First, we wrote a sales manual. This, of course, was not the complete anwser to the problem, but it was a necessary part of that answer. Until you have reduced the information you have obtained to writing and until you have cleared this written material with all levels of sales management, you have not cemented in the cornerstone. You can't build the rest of the structure until this is done. Our manual was built around the five ways in which the salesman can help the grocer sell more of General Foods' products to consumers, but it necessarily included a great deal of other information about his job.

After the manual had received the blessing of management, it was necessary to decide what other media could be used in each different phase of our program. By "media" I mean manuals, booklets, films, meetings, and individual instruction. In any large organization probably all types should be used when the specific situation calls for it. And when I come to the statement of principles on training, I am going into more detail about this subject of media because I feel that its selection is a subject of vital importance in determining the effectiveness of a training program.

METHOD OF TRAINING

After these considerations, we installed the following program:

The first step—explanation: After arrangements for employing a new man are made, he reports to one of our 24 district sales offices. There he is greeted by the district sales manager who spends a short time explaining our policies on employee relations, including our various benefit plans, such as retirement, insurance and sickness.

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Then he is turned over to an assistant to the district manager who handles the training for the remainder of the first week. This week's work consists of a study of the retail sales manual, which contains the following chapters:

1. *Introduction to Basic Training*—which tells him how he is to be trained.
2. *What Your Job Really Is*—which explains the reason why we have salesmen, with emphasis on the fact that the salesman's job is not to sell the grocer but to help the grocer sell more of our products to consumers.
3. *General Foods Method of Specialized Selling*—which explains our plan of emphasis on one product at a time rather than on the complete line.
4. *Sector Plan*—which explains our classification of stores and route lists.
5. *Assignments*—which explains the method by which we prepare men for their specialized jobs.
6. *Sales Presentation*—which explains how to sell.
7. *Sound Pricing*—which is a discussion of pricing from a retail grocer's point of view.
8. *Shelf Location.*
9. *Displays*—which discusses the various types of displays in the store and explains how to make them.
10. *Tie-up Advertising*—which discusses the principles of advertising through a retail grocer.

There are also several other chapters which explain the handling of expense reports, damaged merchandise, etc.

In addition, the most important subjects are explained by films. The new man takes an examination on the subject matter of each chapter, and at the end of this first week he should have a pretty good theoretical knowledge of what he is supposed to do and how he is supposed to do it.

The second step—demonstration: The second phase of his training now begins. On the first two days of the second week, the new man goes out with a definite product assignment to call on grocery stores, accompanied by a trainer. During these two days, the trainer does all the work, while the new man observes the application of the theory he has learned. This is the showing step.

The third step—practice: The rest of the second week, our new man again calls on the trade with a trainer. This time, however, the new man does the work, while the trainer observes, and each call is discussed after they have left the store. If a satisfactory degree of proficiency has been attained, the new man is now ready to take on regular assignments, and the continuous process of retraining and improvement has begun.

The fourth step—follow-up: The follow-up process is carried out in our company in three different ways.

First, there is the assignment meeting. Since our sales force concentrates on a single product objective on each coverage, it is necessary to train new men on this product before they start each assignment. At the present time our product assignments will last about three weeks, which means that every three weeks our salesman must be switched from one product to another and must understand his new sales objective and the best method of accomplishing it. Each assignment starts on a Monday, and on the preceding Saturday each sales

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supervisor has group meetings with all his men. For each meeting, a package is prepared at headquarters, which explains the new objective and contains the specific merchandising ideas. This provides the supervisor with tools to help him conduct an effective meeting. Packages may contain a slide film or a chart talk, examples of display pieces, and booklets that may be used as selling aids. In any case they include a meeting outline.

After the presentation has been made at the meeting, the group discusses the methods to be used. Then the supervisor conducts a drill session so that each salesman will have an opportunity to tell the group how well he has absorbed the ideas presented.

Our second method of follow-up and retraining is to have the supervisor spend a full day with each of his men at least once a month. For this part of the program, he is provided with a form listing all the elements of the job, which helps him concentrate on those parts of the performance which offer the most opportunity for improvement in the case of the particular man.

The third method is work review. The supervisor calls on the salesman's trade the day after the salesman has made the coverage to evaluate his work from an objective viewpoint. The most specific weaknesses can thus be isolated, and an effort is made to help the salesman improve his performance.

INSTALLATION OF THE PROGRAM

There is still one more vital step which must be taken before we can be sure the program is effective. The procedure must be sold to the organization, and it must be accepted. If we now package our manual, films, and other materials, write a bulletin explaining their use, and send the package to the field, we shall be guilty of a gross waste of time, money, and effort.

If we are sure that telling is not enough in training salesmen, we can be doubly sure that it will not by itself induce our supervisory organization to use the plan.

In the first place, the organization must be sold on the plan, and its members must be convinced that it will help them do their job. They must know that it has the enthusiastic backing of management. They must realize that the basic material is practical and realistic, not merely canned courses that do not fit their need. They must be shown how to use it. And they must be aware that a persistent follow-up will be instituted.

In the case of the plan previously described, so many of the intermediate management group had participated in its preparation that most of the job of selling it had already been done. It isn't very difficult to sell anybody something he has helped to build.

In our case, the program was introduced to the field by means of a series of meetings at which explanations and demonstrations were given. The practice and follow-up were, and are, continuous.

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SUMMARY OF PLAN

Let me now summarize this plan briefly. Having crystallized the fundamental objective for our salesmen, we isolated the five things they could do to realize it. Later, through consultation with people in the organization, we found how these things could be done most effectively.

We were then ready to answer the question, "How can we be sure they know what to do and how to do it?" In answering this question:

1. We reduced our findings to writing and prepared a first draft of a sales manual.
2. This first draft was cleared with members of intermediate sales management, and their suggestions were included.
3. We decided on media. Films and other supplementary training aids were prepared.
4. A program for training new men was developed using four steps: *explanation, demonstration, practice, follow-up.*
5. The program was installed through a series of meetings at which the training process was explained and demonstrated. This also helped to build up enthusiasm for the plan.
6. A follow-up was organized.

So much for our pre-war plan of training salesmen.

From our experience, I suggest that you follow this program in attacking a similar problem:

1. Write a manual, and be sure your organization participates in the job.
2. Develop a program which recognizes that the following are necessary: *explanation, demonstration, practice, follow-up,* or check-up and correction.
3. Decide on media.

And let me elaborate on the selection of media, because there has been too much sales talk for one media as against another and too little objective analysis of the total problem. Remember there are three things that makes a salesman tick. They are:

1. His attitude.
2. His knowledge.
3. His habits.

The successful salesman must believe in the job he is to do and in the way he is to do it. His knowledge of the job must be so complete and so well grounded that he doesn't have to stop and think about it. His work habits must be such that he does the right thing automatically; that is, he must have controlled experience pointed toward the formation of the right work habits.

It is vital to keep these three points, attitude, knowledge, and habit, in mind in selecting the training media. Each one will suggest methods.

Here are some further suggestions for your consideration:

When emphasis is placed on attitude first, be sure your personnel policies are sound and then consider inspirational material either written, spoken, or

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dramatized. This is the phase in which moving pictures and large group meetings can be used.

When emphasis is on knowledge, be sure you have agreement on basic material, and then consider clear, simple, concise, and easily visualized media—such as manuals, silent slide films and sound slide films. Individual instruction and small-group conferences are valuable. All these media are in use in our company.

When emphasis is on habit, consider practice sessions, drilling, and also a plan for having the salesman work under observation and for reviewing his work.

For example in the assignment meetings which I previously mentioned, there is a drill session. At the close of the meeting, each salesman has the opportunity to demonstrate how he will give his sales talk. This gives him a chance to practice his performance before he actually faces his first customer.

These principles are submitted for your consideration, not as the complete answer to any training problem but simply as guideposts which have been useful in the selection of media in one particular training problem.

And when you sell the program, make sure that you teach your supervisory organization how to use it. This means that you've got to do more than tell them about it. Explain, demonstrate, and everlastingly follow up.

If there is a general agreement on these principles, we come to what may be called the $64 question, which is, "How should a sales manager develop and follow-up on training programs?" It is a tremendous job, and he must retain the responsibility for it because training cannot be separated from supervision. It is also perfectly obvious that with their many operating responsibilities, very few, if any, sales managers will personally have the time for the research and preparation of materials.

This problem has been met in a great variety of ways, but you will find throughout American industry that sales management is generally given some staff help on the problem by people occupying jobs with titles that range anywhere from "training director" to "assistant to the sales manager."

I do not believe the title is of any great importance, but I have a deep conviction about the necessity for such a staff job and about the scope of activities which it should cover.

The utilization of our human resources is the most important and complicated problem we will face in the distribution end of the business. Our biggest opportunity to step ahead of our competitors lies in the possibility of making better use of the people who make up our organization. Because of this, I believe, it is absolutely necessary for every sales manager in a company of any size to have a full-time specialist on his staff to advise him and his line organization on these human relations problems. This is not a job that can be done in spare time if you intend to get it done to your ultimate satisfaction. It is not a job that can be confined to the training of people, because, after all, training

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is only one of the things that will help you get the best performance from individuals and from the groups of individuals which we call organizations.

There are many other incentives, both financial and non-financial, that have a tremendous affect on performance—such things as benefit plans, sickness, retirement, and insurance programs and such things as definite promotional procedure, consultation with employees before steps which affect their interests are taken, recognition of work well done, proper selection methods, and compensation both regular and extra.

So I submit to you that, while training is one of the important ways to help a human being reach his maximum development, there are other things which are equally important to this same human being and should be of equal importance to you. Therefore I say that the staff specialist who assists you should advise you on all phases of your human relations problem. It is very important not to limit the scope of his activity.

It is also necessary that the post be entirely a staff job, and the occupant of it should be careful not to interfere with line officers' responsibility for handling personnel administration in all its phases. He is there to advise and assist them, to help them prepare the tools and carry out the program. He should be continually after your line organization to modernize and improve your programs, but it would be fatal if he tried to do the job for them.

I am happy to say that the management of General Foods believes that the recognition of this human relations problem is a definite responsibility of top management. One of our chief executives once said it this way, "My competitors can build just as good factories as I can; they can buy raw materials in the same market and at the same prices; they can do just as much research and use the same kinds of advertising and promotion. Therefore my biggest opportunity for competitive advantage is the better utilization of my human resources."

Finally, I should like to remind you that the time for postwar planning is past. The time for postwar preparation is here and in the field of sales training, the time for action is now.

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Question: Were salesmen who had been with your company a number of years among those who were trained? If so, what were their reactions, and how did you make them learn?

Mr. Moulton: When this program was installed about six years ago, we did have a lot of old-timers who knew all the answers. Fortunately, however, the assignment-meeting technique enabled us to do something about that situation. Having each one get up and explain his system, I think, helped us convince them that some of the methods which had proved successful in the field would also be successful for them.

These men had not had the district training, of course; but we did two things about that. First, we sent each of them into a district office for one day,

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not for training but simply to learn what it was like: to see who handled his orders and how they were handled, and to give him a broader picture of how the office fitted into the picture. Then at each assignment meeting, one section of the sales manual was reviewed, and the review was assigned to one person. After some of these old-timers had reviewed two or three sections, they began to believe in the manual.

I should be kidding myself, however, if I said we had entirely licked the problem. We have not. There are still some who insist on going their own way.

Question: Do you believe in canned consumer sales presentations?

Mr. Moulton: I believe in planned consumer sales presentations, but not canned ones. We have a simple five-point plan for the sales presentations which we use in teaching people how to sell. It is the same old thing that has been dished up in many ways for many years, but we believe that if a man practices a sales presentation using the five steps and his own words, he will do a much better job than if we make him memorize some presentation which might not fit the particular problem he is faced with. Every grocer, you know, is different, and sometimes it is better to start one way and sometimes another. Salesmen have to know that.

Question: How can one best train new salesmen at the home office of a smaller organization where continued follow-up is not practical?

Mr. Moulton: In answering that question, I shall have to assume that you have no field supervisory staff at all because if you have, I am against headquarters training. It has been my experience, and that of a great many of my associates in sales training work, that if you bring a man into headquarters for training and then send him back to work under someone who knows nothing about the course, you immediately have a problem.

However, if you have a very small organization and have to do all your training at headquarters, I think you should consider two of the questions I mentioned: What does this man have to do? How is he supposed to do it? Your headquarters training must necessarily be built around the answers.

Question: Do you believe films will play a more important part in future training? Has the training of the armed forces affected the use of films in training? Do you use outside training help? And where do you think the Training Within Industry program fits into the sales training picture?

Mr. Moulton: Training Within Industry courses were designed for supervisors in war plants primarily. Job Instructor Training, which has, I believe, the widest application to sales work, offers four steps very similar to the four I mentioned: preparation, presentation, performance try-out, and follow-up. I left out the first one, and instead of the second I used "explain and demonstrate." I may be challenged on this, but I believe that in the case of sales work, preparing the worker is such an important step that it should not be considered a separate part

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of any one program. Preparation should be a continuous process, and should start with a really good induction plan. I also feel that "explain and demonstrate" will be a little clearer to sales supervisors than "present the operation."

To sum up, I think the principles used by Training Within Industry are absolutely sound, and that those principles can be adapted to sales supervisory training; but I should not be in favor of giving the packaged course to sales supervisors just at present. There is too great a gap between production terminology and sales terminology; and if you try to give salesmen anything which has to do with production, you will meet a wall of resistance.

Job Methods Training, the second package, I do not believe applies to sales work in its present form, although it embodies some sound principles which we might well look into in the future.

The Job Relations Training package, is, I believe, the weakest of the three. An attempt has been made to teach the supervisor how to handle people in a 10-hour course, and the subject is not done justice. What it actually teaches, I should say, is "how to handle grievances," and that I consider only one part of the human relations aspect of the supervisor's job.

With regard to outside training organizations, there are several which specialize on different aspects of training. Some of them specialize on preparation of some media, such as films; others do analysis work; and still others will cover pretty much the whole field. I think those organizations can and should be used at times, very much as advertising agencies are used. But it would be fatal, in my opinion, to delegate your training responsibility to any of them. You cannot separate training from your supervisory responsibilities. We use several of those organizations, and have used them from time to time, but only as an aid.

As far as films are concerned, I personally believe they should be used more than they are, generally speaking. But I think films are effective for training in attitudes, rather than for actual job instruction. We use, I think, more silent slide films than most companies of our size, because discussion can be carried on while they are being shown.

As to whether the training of the armed forces has affected the use of films, I don't believe so. I would say that, in general, the armed forces use films to a lesser degree than industry does, comparatively. You hear more about the work of the armed forces, but the swell training job they did, especially for combat, was not done through films. It was done through demonstration, practice, and follow-up.

Question: How do your salesmen retain the dealers' interest in, and store promotion on, all the items in your line when they are working each week on a special item? Competitors' salesmen may be busy on these other items.

Mr. Moulton: Each assignment includes a follow-up, and the follow-up has to do with the product on which the man previously worked. Then we have a general line part of the job which consists only of picking up orders.

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As far as competitors' activities are concerned, that works both ways. We may take the product assignment that is most embarrassing to competitors.

We have 23 nationally advertised products; and we have found that if the salesmen try to go in and sell the whole line, the result is apt to be poor. But when they go in and concentrate on one product at a time, and do a real job on one product or a group of related products, such as cereals, then they do a bang-up job.

Question: How important is it that salesmen be familiar with manufacturing processes and inspection methods reflecting quality control?

Mr. Moulton: I think that depends entirely on the business. At Armstrong Cork, for instance, probably many of the salesmen should have technical training, some of them might even have to be engineers. But in the packaged food industry anything like trips to factories is unnecessary, because the salesmen do not need to know production details.

Question: Do you believe in the straight-commission plan of compensation?

Mr. Moulton: I have two convictions on compensation that I should like to present: First, a salesman should be paid while he is being trained. (I know some companies that make them take the training on their own time, and I think it is a very short-sighted policy.) My second conviction is that straight commission has so many disadvantages that every company should try to find some way to get around it. I predict that either one of two things may happen if we go in the direction of straight commission: governmental action against it; and, second, a great increase in salesmen's unions.

IV. SALESMEN'S COMPENSATION

By C. KING WOODBRIDGE
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THIS paper will deal only with the fundamentals underlying any compensation program. I shall eliminate all fancy-sounding names and use the terms "salary," "commission," "bonus," "quota," "task," and "prize contest."

First, however, a few definitions: By "compensation," we mean suitable returns for services. "Salary" is a periodical allowance as compensation for regular work; "bonus," an allowance in addition to the compensation. A "task" is a specific amount of labor imposed by those in authority; a "contest," a struggle for supremacy as in a game—a striving to win; "quota," a part required for making up a certain quantity.

In a democratic republic, most free men work for wages. The individual is compensated for his labor, and his compensation depends on his background, his

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training, his capacity for work, the nature of the job to be done, and the environment in which he works. Any compensation plan must be basically satisfactory to both employer and employee.

Too frequently compensation plans have been hastily designed to meet an emergency. A newly organized company is apt to be long on expenditures for manufacture and short of funds needed for selling. Some bright individual will devise a sales kit, furnish a price list, and advertise for men who can "take advantage of a great opportunity to earn big money." He finds men who are willing to venture, charges them for their samples, outlines a district on the map, and sends them on their way, with the exhortation that the company is inherently interested in salesmen.

It is true that a great many strong and prosperous institutions started with a system of that sort. But as they grew stronger, they acquired respectability, substance, and pride in their operations, and soon devised compensation plans which would attract and hold good men. It is well to remember that we are all mentally and physically lazy. For that reason, it is important to set up compensation plans which provide that salesmen profit if they do those things which they ought to do.

"By wisdom is a house builded, and by understanding is it established." That, if you please, comes directly from the Good Book, where, incidentally, you will find the finest rules for selection, training, and compensation. Study it if you want the fundamentals; they are there—every one of them.

FACTORS TO BE CONSIDERED

Any compensation plan, of course, will depend on the nature of the product to be sold, and on its selling price in a competitive market. The channel of distribution is important also, and may be from the manufacturer to the wholesaler to the retailer, from the manufacturer to the sales agent to the user, or from the manufacturer to the user.

In addition, there are such factors as the following: Is the salesman to promote distribution of nationally advertised products? Is he to work in a city

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THE AUTHOR After graduation from Dartmouth College and preliminary experience as a salesman and an advertising and sales promotion manager, C. King Woodbridge joined the Loose-Wiles Biscuit Company as special salesman. He later became branch manager at Hartford, then successively branch manager at Springfield, sales manager at Boston, and sales manager at New York. In the latter post he had charge of all sales operations on the Atlantic Coast.

During World War I, Mr. Woodbridge organized a sales operation for Kellogg Products, Inc., as a semi-war industry in the food line. In 1918 he became sales manager for Dictaphone, a sales division of the Columbia Graphophone Company; and in 1921, when the Dictaphone Corporation was organized as a separate company, he was chosen president.

In 1927, Mr. Woodbridge became president of Kelvinator Corporation. He later reorganized the Manhattan Electrical Supply Company as American Machine and Metals for a group of banking houses; and in February, 1930, he entered Remington Rand, Inc., to concentrate on general sales problems.

Since February, 1932, Mr. Woodbridge has been with Arbuckle Brothers. He is also a partner in the Jay Street Terminal and president of the Jay Street Connecting Railroad.

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or a country territory? What sort of backing will the house give him in the promotion of his sales?

Then the employer must consider the salesman's educational training, his moral standards, and his ambitions, his expenses for travel, his living expenses and his responsibilities, his need for an incentive, and his right to accumulate reserves.

The matter of accumulating reserves is of particular importance. It is my considered opinion that one of the basic foundation stones of a successful plan is some provision which makes it unnecessary for loyal salesmen of long service to worry about their declining years. They should be free from the danger of being tossed into the street when some active young mind thinks they have become too old to keep up the pace of modern competitive selling.

Finally, whatever plan of compensation you contemplate, make it simple. Be sure you understand it yourself, and that everyone associated with you really comprehends it. And remember that any compensation plan is a matter of compromise. The "best method" means only the method with maximum advantages and minimum disadvantages, for the perfect plan has not yet been discovered. Also, the sales executive must realize that every plan must be changed occasionally.

THE COMMISSION PLAN

Now, assuming that the product to be sold has a reasonable opportunity in the field of distribution, it may be possible to use the commission plan. This is the most direct system of reward, since the salesman is paid a definite percentage of his total volume of sales, and the percentage may be determined in advance.

There are, however, various types of commission plans. The simplest is the straight commission, or payment of a predetermined percentage on each sale. Next comes the sliding commission plan, under which the salesman is paid a given percentage up to a certain point, and the size of the commission automatically increases or decreases as further sales are recorded. Under the thrift commission plan, a third system, the manufacturer's merchandise is divided into groups, and each group carries a different percentage of commission for the salesman.

One of the advantages of commission plans is that they enable the employer to reward salesmen for activities which the house considers essential but which the salesman might forget or neglect. In early days of sales management, for instance, veterans of the road would often, in confidential moments, tell of putting the advertising matter which they had been asked to distribute to the trade in the bottom of their sample trunks, and leaving it there. Any compensation plan which fails to recognize the salesmen's weaknesses is incomplete.

THE DRAWING ACCOUNT

Frequently the straight commission method of compensation makes too

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great a demand on the individual salesman's bank account. Many men who are unable to finance themselves on the road prefer a straight salary, or the drawing account and commission. The drawing account is an advance on the salesman's commission and is paid to him like a salary. If he earns more than he has drawn, he is paid the difference. Too often, however, the house will keep a man at work eliminating his deficit, or discharge him and so lose all hope of recovering the extra amounts paid out.

The drawing account gathers permanency, and may become almost akin to salary. To avoid the discouragement caused by accumulated drawing accounts, a regular salary may be paid each week or month, and the plusage charged against commissions.

SALARY PLUS COMMISSIONS

Salary plus expenses against commission is another variation. When this plan is used, salary and expenses are deducted from the commission earned on sales and the excess, if any, is paid to the salesman. Another method is to pay a straight salary, plus commissions on sales above the quota.

A modification of this last plan is the salary plus percentage of savings method of compensation. In this case, each salesman is given a sales quota for his territory and a sales budget showing the cost of covering it. By increasing his sales or reducing his budget, or both, the salesman receives extra reward.

BONUSES

These various plans have given rise to bonuses for specific services or achievement. Payments may be merged with almost any of the plans described and may be given for such special activities as pushing packages instead of bulk goods, pushing an item of special profit to the manufacturer, or promoting an item the manufacturer wishes to close out. Below are some of the types which may be used:

Bonus on total sales: This is given to encourage the salesman to build volume, often at the expense of profit. It may lead him to push short-profit, good-demand items and slight the long-profit items which do not enjoy the same demand.

Bonus on quota excess: A salesman who goes over his set quota may be paid a bonus on the excess sales. This amounts to rewarding results beyond those originally set as satisfactory.

Bonus on low sales cost: The house sets up a reasonable selling cost, and rewards the salesman for keeping his costs below it.

Bonus on service to the house: Many factors enter into the determination of what extra selling services—that is, services which do not ordinarily pay a special commission—are worthy of a bonus. Calls made, new accounts opened, correspondence answered, care and promptness in submitting reports, sales of profitable goods, all come under the heading of service to the house.

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Then, since we are all mentally and physically lazy, bonus plans are often used to correct individual weaknesses. For instance:

Bonus for increased efficiency: Some of the factors to be considered here are integrity, aggressiveness, industry, interest in the company, and sales imagination.

Bonus for promotion work: Some houses pay salesmen extra for dressing windows, getting dealers to feature products in their windows, or pushing the advertising program.

Bonus on calls: This is paid on new calls and repeat calls as well, on the theory that the more sales a salesman exposes himself to, the more he will make.

Bonus on branch office sales: This is paid on the total sales over the branch quota, and is divided among the salesmen. It encourages cooperation.

There are probably a legion of bonus plans in operation, but most of them are modifications of those described. Awards may be of various kinds, such as the straight cash prize, the merchandise prize, or the cash sum determined on a percentage basis.

CONTESTS

Then salesmen like to be pitted in competition against their fellow salesmen, provided the handicaps are not too great. Contests afford an easy method of stimulating interest in the objective that the company wishes to reach. They have been promoted as tugs of war, automobile races, baseball games, football games —anything in the way of a live, up-to-date struggle in which the language of selling may be mixed with the language of play.

TASK AND BONUS PLAN

In addition, there is the system known as "the task and bonus plan," Under it the salesman is paid for definite predetermined tasks and given a bonus as an incentive for excellent performance. Tasks include such things as daily calls, follow-ups, demonstrations, display of advertising material, collection of accounts, and attainment of specific dollar sales quotas, and payment may be made in commissions or in fixed amounts for each task.

In order to operate a task and bonus plan satisfactorily, the management must, of course, introduce an equitable system of recording the tasks and computing their value. This leads to the various point systems.

POINT SYSTEMS

A point system is simple enough in conception, but may grow very complicated in execution. Points are awarded for various phases of the salesman's work, sometimes for accomplishments ordinarily rewarded by commissions and sometimes for extra services, such as the placing of displays in dealers' windows. One point, for instance, might be given for every $100 in sales, or for every five displays placed.

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Under the point system, the salesman may be debited as well as credited. Thus, the salesman who wins points for making sales may lose them for sending in unsatisfactory reports. The debit-credit system is elastic and capable of almost infinite variation.

Use of the point system has given rise to the rating plan, under which ratings and classifications are applied and salesmen are rewarded for oevrcoming weaknesses. A method can be worked out by which salesmen can be paid the difference between total credit points and total debit points in the form of salary and advance expense allowance.

In the final analysis, however, salesmen's compensation plans are all variations or combinations of the three basis systems: salary, commission, and bonus. The commission plan is ideal for the sales manager who is looking for one involving a minimum of risk, since it places the financing on the salesman. There are plenty of manufacturers who operate successfully with straight-commission sales, and some salesmen do not like to work under any other system.

COMPARISON OF DIFFERENT SYSTEMS

Straight commission, however, has been condemned again and again because it has certain obvious weaknesses. The commission salesman tends to oversell his dealers and so force them into distress sales to liquidate inventory. He is apt to call only on the best dealers and to neglect the small accounts; hence a commission territory is often only thinly covered. He is quite independent of the house and chafes under close control, is often careless about sending in reports, and tends to keep territorial conditions to himself. He shies away from cooperative effort and will encroach on the other fellow's territory if he can. He puts his emphasis on the products which are easiest to sell or which give him the greatest profit, and neglects the others. Since he usually lives up to his income, he has plenty of money to spend in boom years, but usually goes broke when times are hard.

The company using the commission plan must be doubly careful of its selection procedures, or it can expect a high rate of turnover. There is a certain type of commission salesman, for instance, who has great confidence in his ability and can accomplish a specialty selling job with ease. Another type is the plugger, who sells goods the hard way, but gets results.

The straight salary plan is, I believe, even today most generally used by distributing organizations. Under it the house takes the risk of financing the salesman in good times and bad. Its big advantage is that it does not discourage salesmen from doing missionary work; and it is also easier to control than the commission plan and provides for closer control over the salesman. However, unless sales management provides extra incentives, it may result in mediocre work.

Because of the weaknesses inherent in both the straight salary plan and the

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straight commission plan, management has tried to combine the two, letting salary cover the salesmen's fixed expenses, and commissions the incentives.

I have not attempted to present the last word on salesmen's compensation. There is no best plan for any individual company, and it is my opinion that it is unintelligent to apply one blanket plan to several hundred individuals. Application of the compensation factors to the job of selling calls for understanding of the job to be done, of human nature as exemplified in the personality of the salesman, and of the rights of the individual to a full, rounded life.

Psychology and management will work hand in hand to enable the sales executive to do consciously what he has done in the past, perhaps, only on instinct. The future of sales management lies in the hands of the thinker and the planner.

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ANALYZING POSTWAR MARKET POTENTIALS

BY

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INCOME, BUYING POWER, AND POSTWAR MARKETS

By S. MORRIS LIVINGSTON

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IN MAKING its postwar plans, business management must bear in mind that our country is still growing, and at a fairly rapid rate. There were about 6,000,000 more people either employed or actively seeking employment in 1940 than in 1929. The war is influencing this trend in a number of ways, but the net permanent effect will be an extension of about the same rate of growth to the postwar period.

The productivity of the workers is also increasing. Even with the shorter hours, in 1941 the output per employed person was roughly 25 per cent greater than in 1929. There is every reason to expect this trend to continue after the war.

This growth was obscured in the decade before the war by the worst depression this country has experienced since the last century. It is true that more goods and services were produced in 1940 than in any previous year. Yet of total available manpower only 46,000,000 were employed, and almost 9,000,000 were unemployed. The volume of business had not expanded in proportion to the nation's capacity to produce and its desire to consume.

The war is demonstrating that this capacity to produce really exists and that pre-war production and pre-war markets are a poor guide for postwar planning. By 1947, the potential will be 40 to 50 per cent above actual production in 1940, 60 to 70 per cent above 1929. This is in physical volume. If the price level after the war is higher than that of 1940, the dollar volume of business could be even greater.

This is an estimate of capacity, not a forecast. The inevitable dislocations caused by the war make production at full capacity in 1947 unlikely. At the other extreme, and because of the further growth of available manpower and its productivity, a return to the 1940 volume of business would leave more unemployment than at the bottom of the last depression. Between these two extremes you will want to make your plans for a range of business conditions.

THE AUTHOR Before joining the Bureau of Foreign and Domestic Commerce, S. Morris Livingston was economist for Scudder, Stevens and Clark, New York City investment counsel firm, having been with that company ever since his graduation from college. He has written a number of articles on various postwar problems, and is the author of the well-known study, *Markets After the War*, published by the Department of Commerce.

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From management's viewpoint the biggest question is how to sell such a large volume of goods at a profit. Where is the money coming from? What reason is there to suppose that business can be more successful in creating an effective demand for a high volume of production after the war than it was before? During the war business has demonstrated its ability to produce because it has one customer with an insatiable demand. Can it distribute an equally large volume of civilian goods?

Effective demand depends first of all on buying power. It is true that the postponed replacements of a long list of durable goods will, for several years, make possible production of these goods at a higher rate than has ever been achieved. Even more important are all the things people could not afford before the war but can afford if a high level of productive employment is maintained after the war. But neither type of demand will materialize unless consumers have the necessary number of dollars and the confidence to spend them.

Stored-up Buying Power

The necessary buying power exists today. Even after higher taxes and the increased cost of living, the real disposable income of consumers in 1943 was almost 40 per cent above the 1940 figure. There has been no corresponding increase in expenditures because many of the things consumers want most are not now available, and because consumers have been encouraged to save for patriotic reasons. The enormous quantity of liquid, spendable reserves accumulating in the hands of individuals as the result of these wartime savings is a most important factor in postwar business conditions. The stored-up buying power is so large as to offset many of the difficulties of conversion to peacetime output.

SAVINGS BY INDIVIDUALS

Prior to 1941, individuals had never saved as much as $10,000,000,000 in any one year. In 1942 they saved more than $25,000,000,000. Of that total, about $3,500,000,000 was used to retire installment debt. Another $3,000,000,000 to $4,000,000,000 went into equities in real estate, insurance, and miscellaneous securities. About $20,000,000,000 was added to individual holdings of currency, bank deposits, and government bonds.

Total individual savings in 1943 will exceed $30,000,000,000. If the war lasts through 1944, the total for the three years will be larger than the total income of individuals in the best pre-war year.

In the three years ending December 31, 1943, individual holdings of currency, bank deposits, and government bonds will have increased roughly $60,000,000,000. The net additions to the *individual* holdings of these liquid assets in the one year 1943 will be larger than the *individual* and *corporate* accumulations during the two-year period April, 1917, to June, 1919, including all World War I.

These funds constitute a reserve out of which people will be able to buy things that have not been available during the war, or maintain their current

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expenditures in spite of temporary unemployment. More important, however, is the fact that they will enable the consumer to spend more of his current income after the war. He will already have accumulated his reserves against the proverbial rainy day.

PRODUCERS' RESERVES

At the same time producers have also been accumulating large reserves against the outlays they will have to make for reconversion, for deferred maintenance and replacements, for rebuilding inventories of civilian goods, and for postponed expansion of growing industries. Total business accumulations of cash and government bonds from undistributed profits, from unused depreciation and other reserves, and from other sources in the two years 1942 and 1943 amounted to from $30,000,000,000 to $40,000,000,000.

These accumulations in the hands of both producers and consumers will help to assure a market for whatever volume of goods is produced after the war. They do not alter the fact that, in large part, this output must be paid for out of the incomes earned in its production. Neither do they eliminate the need to translate buying power into effective demand for specific goods and services. They definitely do not preclude the possibility that there may be unemployment because producers are not prepared to *produce* and *sell* in adequate quantity the things which consumers want most, or eliminate the danger that the dislocations and uncertainties of the reconversion period will be so great that both producers and consumers will be afraid to use such buying power as they have.

Postwar Employment

I said a moment ago that there is enough buying power in current consumer incomes to pay for all the consumer goods that would be produced with relatively full employment after the war. But a large part of this income is derived from the production of war goods sold to the Federal Government and paid for by deficit financing. How much of this buying power will be lost in the process of transition from war production to peacetime output?

In answering that question, I hope that Dr. Davenport will excuse me if I seem to trespass in his field. We need to deal with employment and unemployment in terms of people as well as in terms of dollars.

A little less than 45 per cent of the total national output, excluding the pay of the armed forces, is going to war, but this is produced by only about one-third of the civilian workers. The dollar value of the output per worker in war industries is typically higher than that in the non-war fields. Basic wage rates are higher; there is more overtime and greater mechanization, and the war industries pay a larger share of the taxes which are added to the cost of production.

Of these 17,000,000 to 18,000,000 war workers, only about 5,000,000 are directly employed in the manufacture of aircraft, ships, tanks, guns, explosives, and similar combat munitions. The others are employed in industries whose out-

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put for war does not differ greatly from pre-war civilian output in the kind of plant facilities and manpower required.

Production of combat munitions will not stop entirely with the end of the war. On the other hand, production of some raw materials and some machinery has been expanded for war purposes beyond any probable peacetime market. Including civilians employed in government war agencies, there are about 6,000,000 war production jobs which will automatically disappear at the end of the war, regardless of how good general business conditions may be.

A large part of the other 11,000,000 jobs will continue under any conceivable conditions. In many instances, the same or substantially similar products can be shifted to civilian markets to meet existing demands. For example, the 2,000,000 to 3,000,000 farmers included in the total will not be thrown out of work when war production stops.

THE POSSIBLE SHRINKAGE

The extent of the shrinkage in employment will depend on how readily the products of various industries can be shifted to civilian markets and on how well the conversion of war plants and the expansion of non-war industries can be timed to offset the decline in war production. This, in turn, will depend on when and how fast war production is curtailed.

If the war should end suddenly in 1944, with the production of combat munitions cut abruptly to a peacetime basis, and with one-third of the armed forces demobilized within three months, there would be a net reduction of only about half the present *employment* in war production. One-quarter would still be employed in providing subsistence, transportation, and other supplies and services for those remaining in the armed forces and foreign relief requirements. The other quarter are employed in lines of business which could be shifted to civilian markets with comparatively little difficulty, or which could keep busy meeting existing demands which are not likely to disappear even under these conditions; or they are employed in industries which could be converted to civilian production within that three-month period; or they could shift to non-war industries which are hungry for additional manpower. The exact amount of such offsetting conversion and expansion would, of course, depend on the preparations by business and government to meet these conditions.

The actual shrinkage in the number of *jobs* should be considerably less. If the same man-hours of employment were spread over more people by reducing the average workweek to the 1940 level, this in itself would account for about 5,000,000 jobs, leaving a net shrinkage of less than 5,000,000.

The number of *unemployed* would, in turn, depend on how many of the temporary war workers withdrew from the labor market. About two-thirds of them would have to be eliminated within this three-month period in order to offset those returning from the armed forces. It is probably optimistic to assume that they will withdraw that quickly.

There would be a sharp decline in consumer income, compounded of the

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reduction in man-hours of employment, the elimination of penalty rates for overtime, the shift from high-wage to low-wage industries, and probably some reduction in effective wage and salary rates as less desirable employees are forced to seek new jobs. But the net reduction in disposable income after taxes would still leave consumers with more money to spend than they actually spent in 1943.

BUYING POWER

The possible effect of such an abrupt curtailment on consumer buying power and confidence and, therefore, on the markets for further conversion and expansion to produce more civilian goods, can be indicated by comparing conditions at the end of that three-month period with those in the year 1941. Excluding agriculture and the self-employed, there would be 1,000,000 to 3,000,000 fewer jobs than in that year. There would be 2,000,000 to 4,000,000 fewer in manufacturing and construction, but an increase in retail trade and the service industries, which were already feeling the pinch of labor shortages in 1941, and in government, where the problems of demobilization and reconversion would require the services of many of those now employed in war agencies. Even with loss of most of the increase in hourly earnings since 1941, and with hours of work reduced to slightly below those prevalent that year, there would be a negligible difference in wage and salary income, which would be offset by the unemployment insurance benefits to be expected under the circumstances.

Payments to those remaining in the armed forces at the end of this three-month curtailment period would still be $5,000,000,000 to $6,000,000,000 larger than in 1941. Mustering-out pay is an uncertain but probably substantial item. The net income of farmers in 1943 will be a little over $6,000,000,000 larger than in 1941, and it may not be reduced very much under the assumed conditions and within that brief period. The income of other self-employed, plus interest, dividends, rents, and royalties, is now about $3,000,000,000 larger than in 1941, and all this gain would not be lost so quickly.

After the higher tax rates now in effect, disposable income of individuals at the end of this three-month period would be enough larger than in 1941 partially to offset the increase in the cost of living since that time. The number of unemployed might be somewhere between the average of over 7,000,000 in the first quarter of 1941 and the less than 4,000,000 in the last quarter of that year. There would still be the backlog of accumulated demand and accumulated purchasing power from wartime savings to support the further process of conversion and the expansion of civilian output necessary to absorb several million more returning servicemen in subsequent months.

GRADUAL RECONVERSION

If the curtailment of war production is much more gradual, conversion will be complicated by the need to fit it into the pattern of continuing war needs. But the net shrinkage in employment and buying power *could* be less. Shortages of raw materials are no longer the major obstacles to expansion of civilian production. There is also some prospect of eliminating the bottlenecks in certain critical

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components. The one all-pervasive shortage is manpower. It is reasonable to assume that many of those who leave war production will be absorbed with reasonable facility in other places.

Some increase in unemployment is, of course, inevitable whenever the present extreme pressure on the labor market is relaxed. At least 20,000,000 people sought new jobs sometime in 1943, but few of these were out of work for very long. The average was less than 1,000,000. The number seeking employment has been consistently high in good years and bad. It will be high during reconversion. The number of unemployed will depend on how long it takes these people to find other jobs. The normal labor float in a peacetime year of very good business conditions is at least 2,000,000. With the dislocations of the conversion period, it might be much higher even though there is a normally adequate demand for labor.

Neither is this analysis of the dynamics of reconversion a guarantee of postwar prosperity. Much will still depend on intangible psychological factors, on the willingness of consumers and producers to spend or invest the funds at their disposal.

Potential vs. Effective Demand

Looking beyond reconversion in the narrower sense, the transition will depend not only on the ability of business and government to solve the complicated problems of expanding civilian output as war production is curtailed. It also requires the development of markets far larger than existed in the best pre-war year.

Most postwar planning tends to go to two extremes. In one direction, there is the attitude that, because we need 40 to 50 per cent more production than in 1940 in order to provide reasonably full employment after the war, a volume approaching that level is assured; that because high-level production would automatically provide sufficient income to buy that amount of goods, the problem of selling them will somehow take care of itself. At the other extreme, there is the attitude that the potential increase in buying power will have no effect on *your* business; that you can still measure *your* postwar market in terms of some average of pre-war years; that any major expansion above that pre-war average in *your* industry is just a pipe dream.

It should be obvious that both of these extremes are untenable and that the truth lies somewhere between them. What are the facts?

We know that normally there is some inertia to consumer spending habits, a time lag in adjusting living standards to changes in income. We also know that the accumulated demands for things not available during the war and the accumulated buying power from wartime savings are so large that they may more than offset this inertia.

But if wartime savings are to have their full effect, producers must be prepared to supply the markets which go with a high income and large liquid re-

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serves. If they are not, there is danger that the full effect of the consumers' desire to spend will not be felt because the products which might seem more desirable than further savings will not be conveniently available in adequate quantity. This desirability, in turn, depends not only on the inherent merits of the product but also on the effectiveness of the merchandising effort behind it.

INCREASE IN LIVING STANDARDS

On balance, perhaps the first attitude is more nearly correct. Considering the inherent flexibility of productive capacity and the strength and initiative of American enterprise, it is reasonably safe to assume that the average volume of business over a period of several years after the war will be above any pre-war average. Nevertheless there is need for a better picture of potential markets and more emphasis on the problems of marketing such a large output. Can we visualize, clearly enough to be of any help in postwar plans, what consumers would buy with a greatly increased income and what this would mean in markets for industrial goods?

If we deal with national averages and broad categories—such as food, clothing and housing—and with actual consumption rather than current expenditures, including purchases of durable goods which will be used over a period of years, it seems probable that consumers would want a reasonably well-balanced increase in living standards. But a more detailed analysis of actual expenditures will show important differences.

NEED TO BUILD UP INVENTORY

The most obvious differences arise from the need to build up an inventory of durable goods. For example, a 40 to 50 per cent increase in the American standard of living might mean 35,000,000 to 40,000,000 passenger cars in use as against about 27,000,000 in 1941 and a greatly depleted inventory by the end of the war. While this discrepancy exists, the consumer will be willing to spend a disproportionate part of his income for automobiles. Sales will be determined less by demand than by the number the industry can or will produce.

At the same time the expenditures on the *use* of these cars, the gasoline, oil, insurance, garaging, and other services, will be disproportionately low because of the limited number of cars on the road.

At the end of this deferred-demand period, automobile purchases will need to be only large enough to take care of current replacements. But by that time consumers will be spending more on the non-durable goods and services incident to automobile transportation.

As another example, a high level of productive employment after the war would greatly increase the demand for housing, but the immediate supply would not be much larger than pre-war. Even with removal of controls on rental rates, actual expenditures on housing for a while would be abnormally low. At the same time the outlays for new residential construction could be very large. Since the current cost of using a residential building is only a fraction of its initial

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cost, the required investment is many times the resulting increase in the standard of living in this respect.

SHIFT IN INCOME DISTRIBUTION

Another reason for expecting that postwar increases in some lines of business may be much greater than in others is the potential shift in income distribution compared with the average of the pre-war years 1935-1939. During that five-year period, 30 to 40 per cent of all the families had incomes of less than $1,000; and only about 10 per cent had incomes of over $3,000. Allowing for higher taxes and larger savings in the upper income brackets, those with incomes of $3,000 or less accounted for a full three-fourths of all consumer expenditures. This was the mass market.

Given the present volume of income payments after the war, about one-tenth of the families would have incomes of less than $1,000. Instead of one-tenth there would be about one-third with incomes of over $3,000. The significance of that shift can be indicated by a simple comparison.

According to the consumer purchases survey by a group of government agencies for the years 1935 and 1936, non-farm families with incomes of less than $1,000 made average cash expenditures of less than $600. Of this, $229 per year or just over $4 per week went for food. If you are in the food business, you can use your imagination as to how much of your product they could *not* buy with that amount, even at the price level of that time.

A year's purchases of clothing for the whole family amounted to only $56. Only $29 was spent for the purchase and use of automobiles.

Total expenditures of the average family with an income of $3,000 to $4,000 were a little over four times as much, but the distribution was quite different. Total food expenditures were two and one-half times as large as in this low income group, but the food purchased in restaurants and other places away from home increased 17 times. Total expenditures for housing and household operation were four times as large, but these people spent 12 times as much for telephone service and 14 times as much for laundry sent out.

Expenditures on the purchase and use of automobiles were ten times as large in this higher-income group. Furniture and floor coverings increased almost seven times but radios less than four times. Recreation increased ten times. Expenditures on clothing were five to six times as large. You will not be surprised to learn that women not only spent more on clothing but that their expenditures went up more rapidly with an increase in income.

It would be dangerous to draw too many detailed conclusions from a survey of this sort. But the general pattern is vitally important. It will be worth your while to visualize all the ways in which the expenditures of a typical family with an income of, say, $3,000 to $5,000 could differ from those of a family with less than $1,000, and how those differences would affect your business.

There are two other clues to consumer-expenditure patterns after the war. One is the relation between changes in total national output and expenditures for

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various groups of commodities and services in pre-war years. The other is the way people actually spent their high incomes in 1943.

In *Markets After the War* we projected the pre-war relationships into a hypothetical postwar year, with an assumed disposable income which happens to be almost identical with that in 1943. Comparison with actual expenditures in 1943 is interesting.

Of course, the biggest discrepancy was in consumers' durable goods, where expenditures were at least $10,000,000,000 less than might have been expected if these goods had been readily available. Because comparatively few new homes have been built, rent and the various expenses connected with home ownership and maintenance were about $5,000,000,000 less than would be indicated by the projection. Rationing and the shift of men to the armed forces appear to have reduced total civilian food expenditures by less than 10 per cent or $2,000,000,000 to $3,000,000,000. Rationing also cut user-operated transportation by almost 40 per cent or less than $2,000,000,000.

These four items are enough to account for all the abnormal increase in savings. In spite of shortages, rationing, and the shift in men to the armed forces, actual expenditures on all other goods and services in 1943 were just about in line with the pre-war relation to disposable income. This raises the question whether consumers as a group would spend any more in these fields out of an equally high income after the war. Of course, these expenditures were made at a time when dollars were a poor index of intrinsic values. Since shortages have reduced quality and service, increased prices and limited choice, it is quite possible that under different conditions different items might be purchased and the physical quantity of consumption might increase.

THE CAPITAL GOODS MARKET

I am sure that at this point some of you are saying to yourselves that all this discussion of what the consumer might buy is fine, but you are in the business of making producers' capital goods, and the future in your line doesn't look so good. The outlays for manufacturing plant and equipment in 1941 and 1942 were nearly as large as the total of the preceding ten years. Have we built most of the new facilities we shall need for the decade following the war?

To answer this question, and to avoid having our perspective distorted by particular situations, we need a picture of the whole capital goods market.

Of the total outlays on producers' plant and equipment in the four years 1937 to 1940, only about one-third was in manufacturing. The various public utilities, plus agriculture, made up another third; and the rest was in retail and wholesale trade, the professions, and a host of service industries.

For the three years 1941 to 1943, the outlays in manufacturing were almost three times as large as the pre-war average. There has been no such expansion in other fields, which constituted two-thirds of the pre-war total. In fact, their 1943 expenditures will be substantially below the pre-war average. These people are being told they will have to wait until after the war to buy many of the new facilities they need.

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The same discrepancies exist within manufacturing. Industries which provided most of the pre-war market for capital goods have been starved by the war. They include food, textiles, lumber, furniture, paper, printing, stone, clay and glass products, and a number of others. Some war plants are readily convertible to civilian production at moderate cost. Many of them are not.

Don't forget that present national output would have been impossible without the enormous outlays for war plants, multiple-shift operations, long hours of overtime, and the overloading of inadequate and obsolete equipment in other fields. In general, the physical plant of the country is being operated at considerably more than the optimum rate which would prevail if business were free to reduce costs by building new plants or buying additional equipment.

The employment of most of the people who will want to work after the war in the production of a bill of civilian goods 40 to 50 per cent above the pre-war level will require not only substantial outlays for reconversion but also new capacity in many civilian lines. The possibilities are strikingly indicated in the recent statement by the chairman of the board of the General Motors Corporation that his company will spend $500,000,000 on conversion and expansion. This is as much as it spent on plant and equipment in a whole decade before the war.

Summary

To summarize all this, the country is growing at a rate which makes a return to the pre-war volume of business untenable. We have the buying power today to absorb a greatly increased production of civilian goods. Some of that buying power will be temporarily lost during the reconversion period but the decline need not be disastrous. One of the major tasks of business and government in the coming months is to plan the transition so that the shrinkage in employment, in buying power, and in confidence is as small as possible. The enormous accumulation of demands and of savings in the hands of both producers and consumers will go a long way toward offsetting some of the difficulties.

Postwar production will in large measure provide the buying power to pay for whatever volume of goods is produced. Since the larger reserves in the hands of consumers may be considered adequate against future contingencies, even at a fairly high level of income, there will be a much more immediate desire to spend this income. There is still the need to translate that buying power into effective demand for your products. Past experience as to how people's expenditures change with changes in income offer plenty of clues as to potential markets, provided you can interpret them correctly.

It should be clear, however, that there is nothing automatic or inevitable about these markets. This is still a competitive world where some businesses prosper while others decline. Courage, imagination, and ingenuity, plus practical, hard-headed, long-range planning, may create a volume of business far in excess of that suggested by any reasonable market analysis. Where these quali-

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ties are lacking, the most accurate appraisal of postwar markets becomes a futile gesture.

* * * * * *

Question: From a long-range marketing point of view, what is the significance of the development of the saving habit on a broad national scale?

Mr. Livingston: You have hit upon a moot question among economists. I do not think there is any doubt that some people will have acquired the saving habit during the war, but I suggest that the average consumer is a rational human being, not just an economic automaton. He has accumulated reserves which, judged by any pre-war standard, are fantastic. Some consumers may continue to save, but a lot of them are going to take the attitude that they already have their reserves, and that it is time to spend their income.

I don't know whether the net effect will be a little less than enough effective demand, or whether we may actually have too much effective demand—in other words, inflation. To a considerable extent, that is going to depend on how good a job you people do in marketing. The consumer always has to make a choice between current satisfaction and protection against future contingencies. He never has enough of either. But because of this enormous accumulation during the war, much larger than this country has ever experienced before and much larger than during World War I, the odds are weighted in the direction of spending rather than saving after the war.

Question: Could you briefly outline a procedure by which an individual company can make an intelligent estimate of its own probable sales volume in the postwar future?

Mr. Livingston: One way of doing it, of course, is to go out in the customer's backyard and dig for your facts. I have one suggestion to offer, however: Most of you have operated in pre-war years on the principle that if last year's sales were thus and so and next year looks as though it ought to be somewhat better or worse, the thing to do is to increase or decrease last year's figure by a certain percentage to arrive at an estimate of next year's volume. But the war has caused too big a break to make pre-war business a very good guide.

It might be interesting and worth while to take the figures on the gross national product, the total output of the country, for the pre-war years from 1929 to 1941—or even through the war, if you like—plot it on a chart, and then plot your own sales on the same chart, and see what sort of relationship there is.

The chances are pretty good that the two lines will not correspond very well, but you will be able to spot the reason why. You may see, for instance, that in one year your sales went up when those of the country went down, and you will know that you brought out a new product, changed your sales policy, or had a new pricing scheme, or something of the sort. On another occasion, perhaps,

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your competitors got the jump on you, and your sales went down while those of the country went up. But it will be an educational experience to see how your business reacts to the total national output.

Having done that, and having reached your own conclusions as to what the total national output is likely to be after the war, you have taken the first step toward an approximation of what your sales may be. That will be a starting point.

Question: How can the necessary quantity of goods—say, $150,000,000,000 worth—be sold at a profit in the postwar period?

Mr. Livingston: What you need is a national income statement for American business, such as appears in our publication *Markets After the War.* I don't know that I can describe it adequately here, but if you work that income statement out, you find this picture: The total dollar sales of all business enterprise in this country go to one of three groups—to individual consumers in the form of wages, salaries, dividends, entrepreneurial withdrawals, and similar payments; to business in the form of depreciation, undistributed profits, and other reserves; or to the government in the form of taxes.

In the first few postwar years, I don't think there is much question but that business is going to need to spend, and is going to want to spend, more than its current withdrawals in the form of undistributed profits and depreciation charges. I don't know what the government budget is going to look like, but I am sure that it is not going to be balanced by any astronomical figure. So it comes down pretty much to a question of how much of their income consumers are going to want to save, and whether business is prepared to borrow all those savings. Consumers will have enough buying power in current income to pay for all the consumers' goods produced. Whether they actually use that buying power will depend in part on how attractive producers can make the things they have to sell and in part on confidence in the nation's ability to avoid widespread unemployment.

There is no dogmatic answer. As I said a moment ago, the fact that consumers have already increased their savings so far above the pre-war level, suggests that they will not save nearly so much at that high-income level as they would have saved if those accumulations had not been made. I think there is a fair possibility that the demand for goods will be there.

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POSTWAR READJUSTMENT PROBLEMS

By DONALD H. DAVENPORT
Bureau of Labor Statistics
U. S. Department of Labor

THE crux of the postwar problem is that of jobs—jobs for displaced workers and demobilized soldiers. Today no one questions that the right to a job has become firmly entrenched as a modern social conviction—a conviction which has gradually evolved over a long period, but which has really crystallized in the last decade and a half. For the years since the depth of the great depression have demonstrated both the drastic consequences of mass unemployment, and the possibility of securing full employment through direct social action. We know now that when the collective effort is mobilized toward a common goal, as it is during a war, practically nothing is impossible. We can, if we will, accept as our postwar goal the establishment of our economy on the basis of full employment.

The first step in planning is to define the problem. This involves collection of data on actual trends during the war in such factors as the total labor force and its components, employment, and unemployment. It also requires a marshalling of the best-informed estimates of technical experts as to probable shifts in these factors in the postwar transitional period, in order to anticipate their repercussions throughout the economy during both the immediate and the longer-run postwar periods. And it involves an investigation of current thinking—thinking by business men, professional social scientists, and agencies, public and private, interested in the problem—on what the postwar difficulties will be and proposals for dealing with them. For these, too, are factual data that will, through their effect on legislation and business and consumer anticipations, profoundly influence the actual postwar situation. Hence it is necessary to examine

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Dr. Davenport served with the 78th Division of the A.E.F., 1917-1919. He is a member of the American Academy of Political and Social Science, the American Economic Association, and the American Statistical Association. He is the author of *Cost of Government in New York State, An Index to Business Indices, Unemployment in Massachusetts and Prospects for Reemployment, The Cooperative Banks of Massachusetts,* and *Families and Their Life Insurance.*

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such thinking carefully and analytically in order to abstract the underlying principles basic to the various proposals, and thus to provide policy-makers with sound information on the problems with which they will be working. Accordingly, I propose to take you through the following three steps to the extent that we have ourselves traversed them: first, to trace the effect of the war on certain basic components of the economy; second, to present, for illustrative purposes, one of the possible sets of assumptions and estimates as to shifts in these factors upon the cessation of hostilities; and finally, to point up what these data and estimates indicate to be the probable pattern of the problems with which the postwar policy-makers will be faced.

Perhaps the most dramatic indication of what has been happening to the economy is revealed in the rise of the national income and its distribution during the war years. National income has just about doubled in the last four years. Half of our present income and production is going into the war effort.

RISE IN EMPLOYMENT AND PAYROLLS

When the peak of war employment is reached around the middle of the coming year, we shall have put at least 17,000,000 more people into the armed forces and into industry than we had at work in 1940. This has been made possible by the absorption of some 8,000,000 unemployed—frictional unemployment due to inevitable labor turnover, illness, etc., is now well below the 1,000,000 mark—and the entry into the labor force of some 8,000,000 or 9,000,000 *new* workers, women, children, students, and older people. The most significant factor in this expansion, of course, has been the rise in the armed forces from less than 500,000 toward an anticipated peak of 11,300,000 in July, 1944. Aside from this, the rise in employment has been largely in manufacturing and particularly in the heavy goods component. At the peak, manufacturing employment will be in the neighborhood of three-fourths greater than what it was in 1939.

The rise in factory payrolls has been even more spectacular, with payrolls more than triple their 1939 magnitude. This latter development has been due to the increased numbers working, higher hourly rates, overtime and other premium payments, and the shift from low-paying to high-paying industries and occupations. One consequence of this is the marked shift during the war of income recipients into the higher-income brackets. Four times as many people had incomes in excess of $5,000 a year in 1942 as in 1935-36. More people have more money today than ever before. This not only explains the necessity for price ceilings and rationing during the war, but points to a probable unprecedented accumulation of savings, and the implications this may have for the immediate postwar period, both as a promise and a threat.

WOMEN IN THE LABOR FORCE

Another war phenomenon has been the striking increase in the proportion of women in the labor force. Women are now doing about everything that men

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did four years ago. They constitute a surprising proportion of the workers in vast industries like ordnance, aircraft, and shipbuilding, and they are now to be found even on railroads. Between July, 1940, and July, 1943, 4,000,000 women entered the labor force. The estimated war peak total is 18,700,000, 4,900,000 above 1940, and 3,500,000 above the estimated normal derived by projecting pre-war trends. Of course, the situation is not likely to return to a "normal" calculated in this way. We can be sure that many women will voluntarily leave the labor force when the war is over, but we do not know how many. Chances are that a significant proportion of the new entrants will stay in if given a chance.

SHIFTS IN POPULATION

The differential in the impact of war geographically has brought about a mass migration. Wartime industrial developments have accompanied a population increase of 4,500,000 from 1940 to 1943. But 7,500,000 were drawn into the armed forces, leaving a civilian population smaller by 3,000,000 or 3.1 per cent for the country as a whole. But because of the differential impact of war production, the interior of the country actually lost in total population, while the states on the seaboard and the large industrial states gained.

Great interest centers around the character and the magnitude of the shifts that are to be expected when war comes to an end and we move toward the establishment of an economy of peace. These shifts will determine in large part the character of the postwar problems. No one can tell us when the wars will be over or what the peace terms will be. We do not pretend to be able to foresee the future, and we disclaim any attempt at a forecast of things to come. Nevertheless, we are persuaded that the planning of national policies to cope with postwar problems cannot be conceived wisely in a vacuum. We do believe that our thinking about these problems will be advanced if we make certain tentative assumptions and ascertain how they would affect our problems.

ESTIMATING POSTWAR UNEMPLOYMENT

Let us, for example, make the following assumptions which may or may not turn out to be valid, and then let us see what results would appear:

1. Victory over Germany in mid-1944.
2. Victory over Japan in mid-1945.
3. A decrease of 3,000,000 in the land forces during the Asiatic phase of the war.
4. A reduction of 50 per cent in the rate of munitions production by the end of the Asiatic phase of the war.

The item of greatest interest to us in applying these assumptions is the estimate of unemployment after the war. It is significant that this figure is residual —the difference between the total number in the labor force and the number estimated to be employed. The purpose of marshalling in this arbitrary fashion figures on several indeterminate factors is merely to illustrate how the dimensions of the postwar problem—as measured by unemployment—can vary. The magni-

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tude of the problem will depend on what policies are adopted relative to certain of these components which are flexible or controllable in the sense that their size can be influcnced, at least partially, by direct social action.

SUBSTANTIALLY CONSTANT COMPONENTS

With this purpose in view, I want first to point to several of the components of the total labor force that can be predicted with fair accuracy either because of their relative constancy, or because their likely range of variation in response to social pressures is too slight to offer a significant opportunity for influencing the unemployment band.

Agricultural employment can be expected to remain quite stable at current levels. The pattern assumed here for 1944 and 1945 is based on the 1942-43 level. It should be noted that the extreme seasonal fluctuations of agriculture account for a large portion of the seasonal variation in the total labor force.

For *mining, transportation and public utilities,* the current employment level, which is slightly higher than in 1941, is assumed constant throughout the remainder of the war and the postwar period.

The *non-industrial* category is heterogeneous, for it includes trade, finance, services, and the self-employed. The important fact about these activities is not so much their stability, but rather their dependency upon other factors. They can be expected to respond more or less to changes in general population. Their level is a function both of the number of workers available and of the general industrial activity which they service. The 2,000,000 increase in employment during 1941 was probably due to the latter, and the subsequent decline of over 3,500,000 during 1942 and 1943, with a still further fall expected during the first half of 1944, to the former factor, as well as to war restrictions. It is assumed that employment in this group of activities will rise by about 1,000,000 in the first six months after V-G and another million after V-J. Both expansions will be facilitated by the release of workers from the armed forces and by the expansion in normal productive industrial activities.

Construction is listed as relatively "inflexible" only because it is felt that the backlog of demand for housing and maintenance and expansion of peacetime industrial facilities will be so urgent that the only limitation will be the physical ability of the industry to resume activity. Construction employment increased from 1,300,000 in early 1940 to a peak of 2,200,000 in the autumn of 1942 as war industry facilities were expanded at a phenomenal rate. It has subsequently declined to less than 1,000,000 because of materials and labor restrictions, and is expected to decline still further up to V-G. After that it is assumed that with the release of facilities and materials from munitions production, employment in the industry will begin a steady climb to perhaps 1,800,000 six months after V-J.

Government employment in other than war agencies holds a fairly stable level. It has declined slightly since 1942, but the assumption is that the June, 1944, level will continue throughout the Asiatic phase of the war, and that after V-J this component will rise to 1941 peaks owing to the expansion of public

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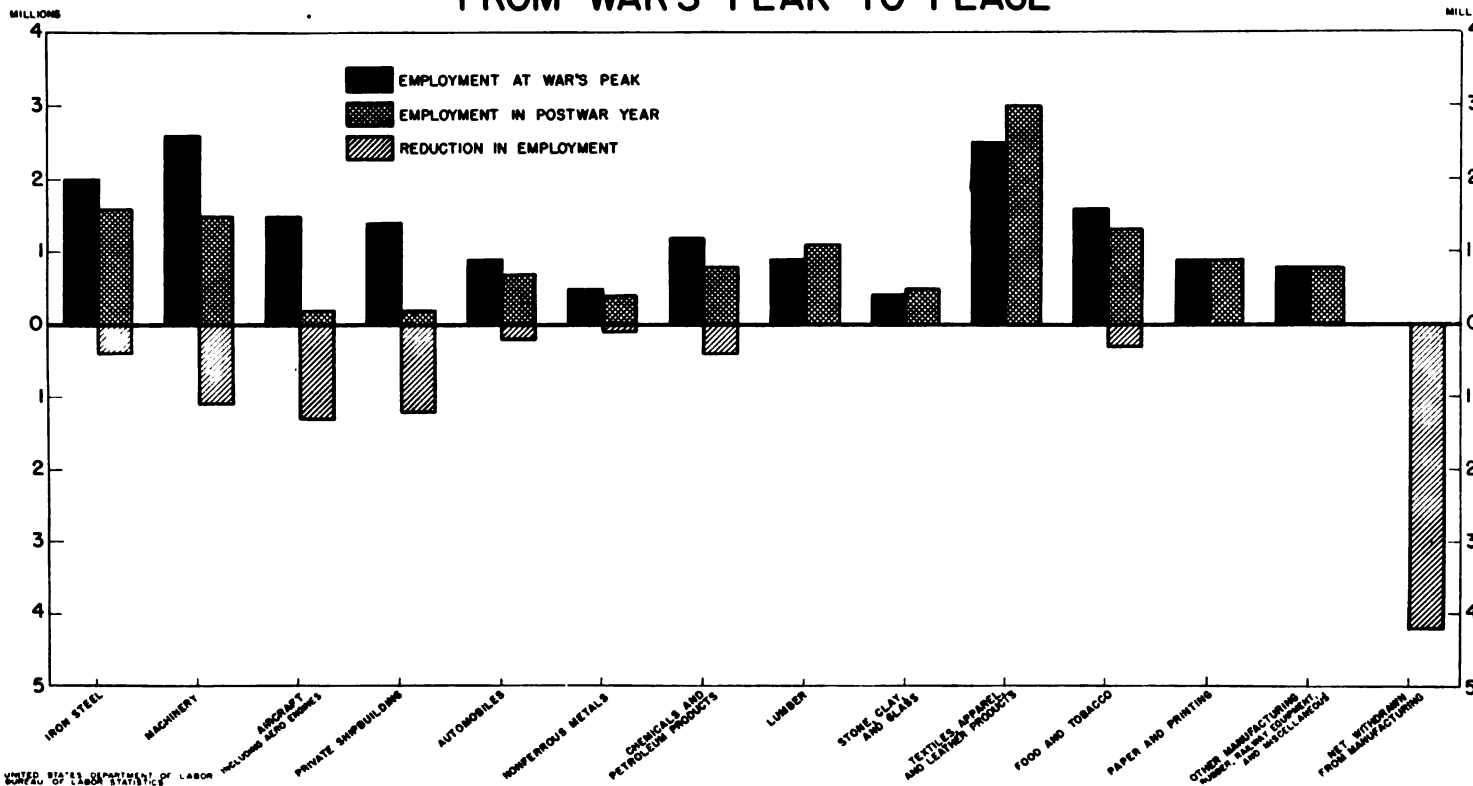
SHIFTS IN MANUFACTURING LABOR FORCE FROM WAR'S PEAK TO PEACE



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works, and as former government workers are released from the armed forces and restored to their old jobs.

The 2,000,000 workers in *federal war agencies* in March, 1943, will probably keep their jobs throughout both phases of the war. And the cutback after V-J is not likely, at least in the first few months, to be at all proportionate to that in the armed forces, since temporary continuation of economic controls may necessitate a prolonged life for such agencies as WPB, OPA, etc.

This leaves us with four factors as active determinants of the magnitude of postwar unemployment: (1) the timing of demobilization of the armed forces; (2) the timing of termination of employment in war production; (3) expansion of employment in peacetime activities; and (4) the ultimate size of the labor force as determined particularly by the number of withdrawals.

HOW FIGURES WERE OBTAINED

Before discussing the policy issues that will arise in connection with these components, it might be well to indicate the assumptions that have enabled us to arrive at the obviously arbitrary magnitudes indicated in the charts [see page 19 and opposite page].

The *armed forces* have grown from 500,000 in 1940 to at least 10,000,000 at the present time, and a straight-line increase to the official peak of 11,300,000 by July, 1944, was assumed. It was also assumed that the release of 3,000,000 servicemen after V-G would be spread evenly throughout the ensuing year, with a more precipitate drop after V-J to 4,000,000 within six months. A level of armed forces commonly assumed for long-run postwar defense needs is 2,500,000.

The focal point of the postwar unemployment is to be found within the group of heavy industries—aircraft, engine, shipbuilding, metals working industries, chemicals, and rubber—which is the source of war munitions, and which will bear the burden of conversion and reconversion to meet the immediate postwar demand for consumer durables. These figures particularly must be considered purely illustrative. Employment in this group has already expanded from a little over 4,000,000 in early 1940 to about 10,000,000, and the peak requirements estimate is for 10,700,000 by July, 1944. We have assumed that this group will show a gradual decrease for nine months after V-G to a level of 6,600,000—*gradual* because of the concomitant expansion of civilian heavy production to two-thirds of 1940 levels made possible by the cut in munitions requirements. It should be noted that the drop afterV-J is not so precipitate as might at first blush be expected, because (a) civilian reconversion and expansion will already have had a good start, (b) there will still be some demand for munitions for postwar defense, (c) there should be a large demand for consumer durables, and (d) the raw material capacity of the nation will exceed its pre-war level. The estimate of 5,500,000 employment in this field six months after the war, which would be comparable to early 1941 activity, is most tentative. Actually much will depend upon the attitudes and expectations of business men, consumers and the government.

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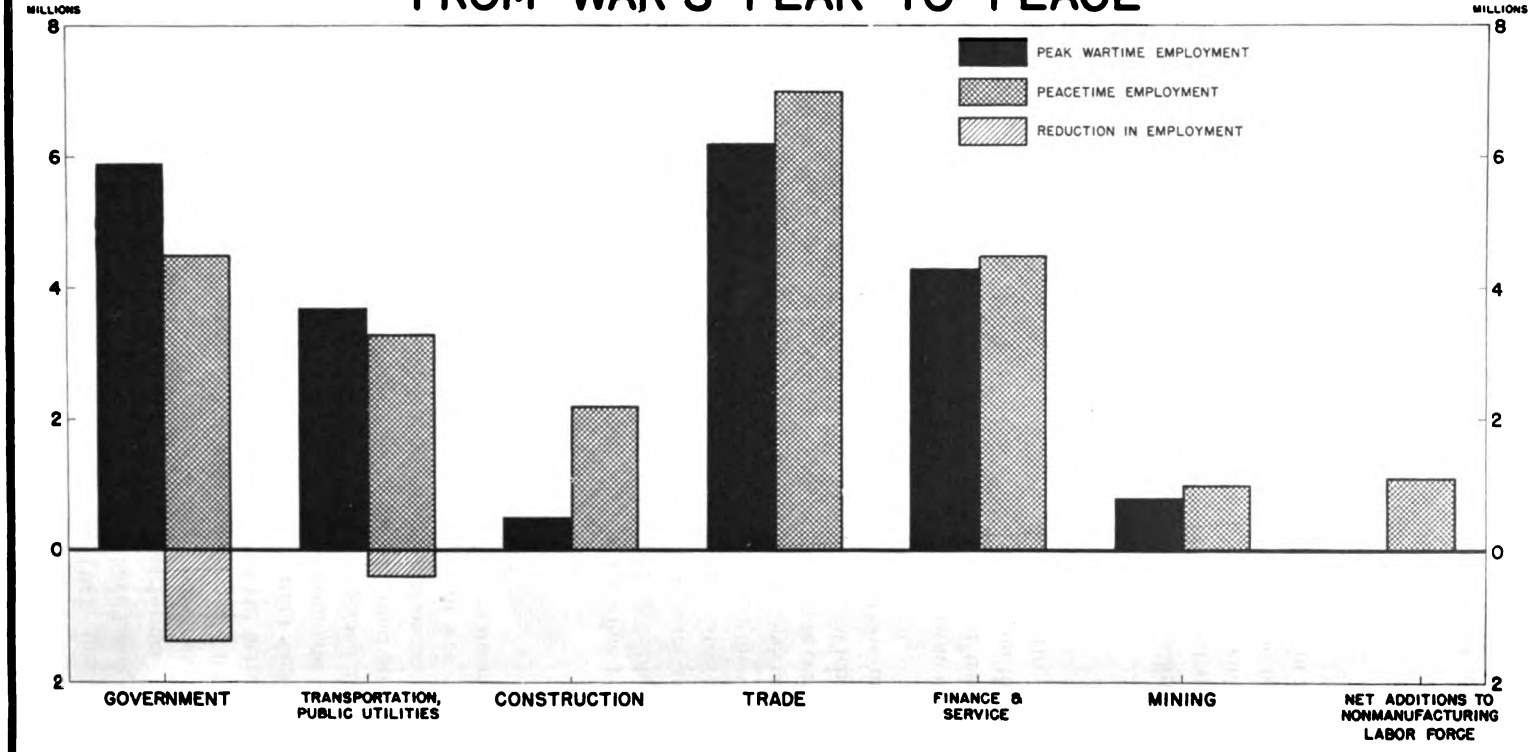
SHIFTS IN NONMANUFACTURING LABOR FORCE FROM WAR'S PEAK TO PEACE



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Manufacturing other than in this war production group rose from over 6,500,000 in early 1940 to a high of 7,800,000 in late 1941, then declined steadily to slightly above 7,000,000 at the present time. We have assumed a continuation of this level to V-G, and then a slow steady rise as former employees return to their jobs, high consumer income renders demand effective, and labor and materials are released from munitions production. Employment might reach 7,500,000 six months after V-J, a level comparable to early 1942 activity.

The size of the *total labor force,* which is a very important factor in determining the size of the unemployment residual, is itself indeterminate. Although it expanded fairly steadily up to the present time, and is expected to go still higher to a peak of 65,500,000 in the middle of next year, its trend after that is subject to wide variation. It will depend on the rate of population increase, the number of further entrants into the labor market, the number of war casualties, and the volume of withdrawals after V-G, and later after V-J, as normal breadwinners return and the appeal of patriotism slackens.

GEOGRAPHICAL IMPACT OF DEMOBILIZATION

The impact of demobilization will not be even. It will hit some geographic areas harder than others. The industrial state of Michigan will probably find that it has nearly six demobilized servicemen and released war workers seeking jobs for every ten persons employed in the state before the war. By contrast the proportion may well be only two to ten for states like the Dakotas, the Carolinas, Mississippi, Wyoming, and others in which there has been little specialized war production. Even this ratio is serious, of course. And within a state certain communities will be particularly affected—such as San Diego, Cal., Wichita, Kan., and Portland, Ore., where the number of factory wage earners is now many times larger than in 1937.

This brings us to the really strategic phase of the whole postwar issue—the upshot of these many data and hypotheses on actual and expected trends—and that is where specific policy issues will require clear-cut decisions on the part of the government. However, I shall merely sketch in outline form what the problems are likely to be.

IMPORTANCE OF TIMING

The timing of demobilization, both of servicemen and war workers, will obviously have a profound effect upon the volume of unemployment in the first postwar months. Planning for the release of servicemen will be limited, on the one hand, by a recognition of the resentment that must inevitably be fostered by any delays and, on the other, by the difficulties that might result from mustering out men before there are jobs available for them.

Contract termination and the consequent release of war workers is likely to be governed by the primary consideration that materials and productive and transportation facilities must be made available for reconversion and expansion of peace production as rapidly as possible. Nevertheless, there will be some scope

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ESTIMATED IMPACT OF MILITARY AND INDUSTRIAL DEMOBILIZATION

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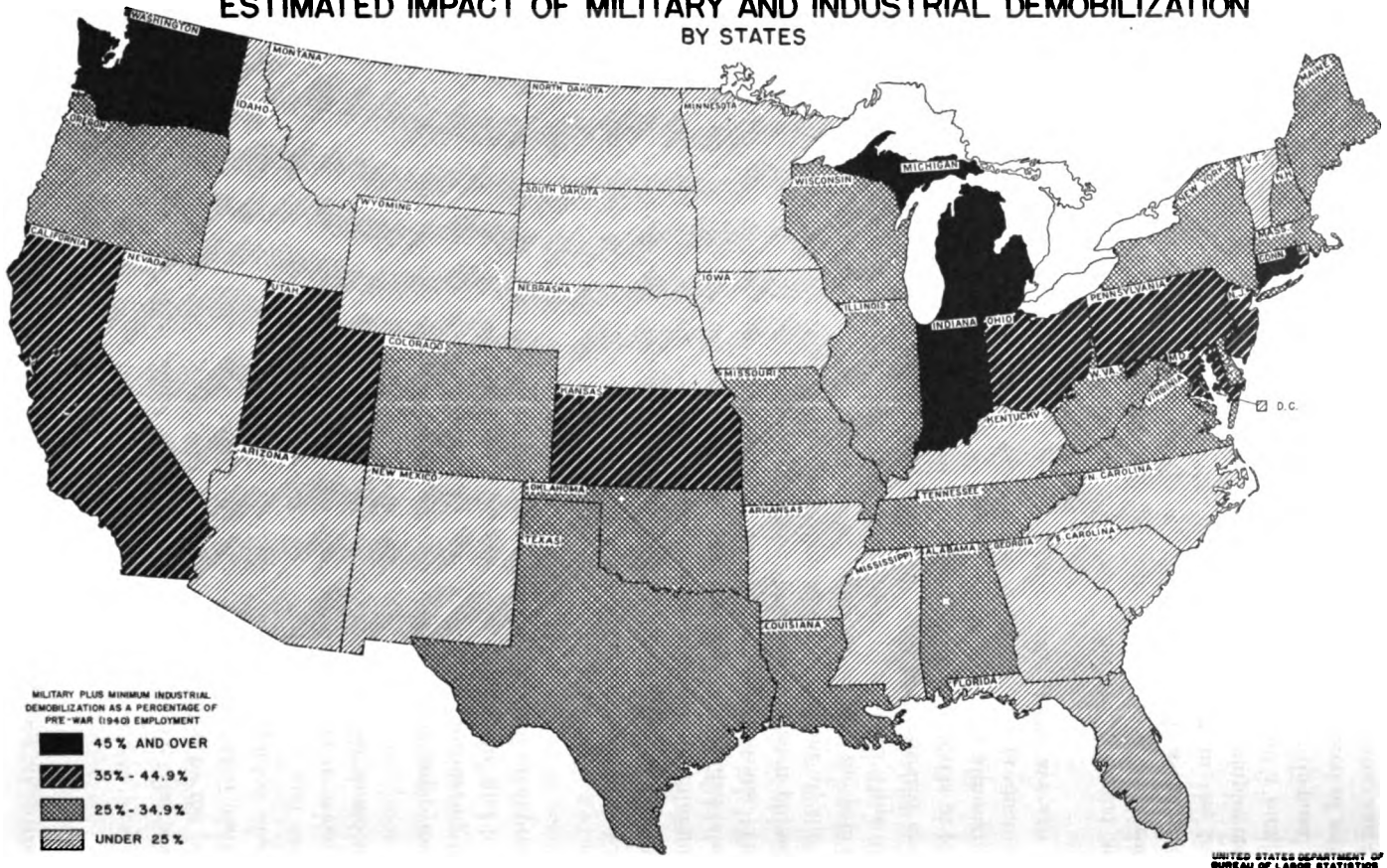

for a limited policy of tapered cancellation in connection with certain goods needed for postwar defense and foreign relief and rehabilitation, and other items which have a domestic peacetime use.

POSSIBLE WITHDRAWALS

The significance that social policy might have for the size of the total labor force, and consequently the unemployment residual, is also indicated by the possibility that conceivably as many as 5,000,000 withdrawals from the labor market may occur if we have a program of government subsidies for expanded educational opportunities, increased old age coverage and higher benefits, and more liberal family allowances or income tax deductions for dependents to make it possible for some women to return to the household who otherwise would not do so.

The important influence which an efficient and well-coordinated employment service could have upon average postwar unemployment is clear, considering the fact that the gross or total number of jobs shifts, including inter-state and both *inter-* and *intra-*industry transfers, will present a placement problem of unprecedented magnitude.

RATE OF RECONVERSION

The rate at which reconversion and expansion of civilian production will proceed will depend in part upon such tangible and direct factors as the minimum time required for retooling of plants, reassembling of materials and skilled labor, rescheduling of production, and rebuilding of distributive organizations. That rate, however, will not be determined solely or even primarily by such physical limitations. Much more important will be considerations growing out of, and in turn affecting, the general economic climate or environment, such as the policies adopted by government and the expectations and actions of industry. Thus it is impossible to say that full peacetime employment will have been reached as of any specified date. It cannot even be said with certainty that 1940 levels of production will be exceeded in a postwar year such as 1946 or 1947, although if these levels are not exceeded the larger labor force and increased productivity of the postwar period will raise unemployment above the 1940 average of 8,100,000.

It should be pointed out that the accumulation of deferred demand and liquid savings during the war creates a presumption in favor of rapid expansion of our civilian economy, or at least of large segments of it, such as construction and the industries manufacturing consumer durables. But in the final analysis the rapidity of reconversion and the over-all level of employment achieved as of any given date after the armistice will also depend on a number of other factors. These include the policies developed to settle the disposal of government-owned war plants and surplus stocks of war goods, the speed of settlement of war contract obligations, tax policies directly affecting business, and the adequacy of capital and credit facilities, including those available to small busi-

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ness units. They also include the action that may be taken by the Federal Government to prevent the development of disruptive price inflation so long as purchasing power remains in excess of goods available for purchase, and the action that may be taken to check monopolistic restrictions on production. Equally important is the question whether business can feel assured of adequate continuing demand for its products or whether it must develop more limited plans in the expectation of a decline in national income and consumer demand after the first wave of postwar buying power has spent its force.

SUPPORT OF UNEMPLOYMENT

In conclusion, I want to emphasize that despite everything constructive that may be done in the areas we have just reviewed, unemployment in the transitional postwar months is certain to be of a serious volume. Hence it is important that we be prepared to render all possible assistance to the victims of this unavoidable situation.

Careful consideration should be directed to the question whether financial support to the unemployed should take the form of separation pay and dismissal wages, or expanded unemployment compensation benefits, or a combination of the two. The feasibility of providing the jobless with constructive retraining opportunities should be explored. Finally, but of primary importance, steps should be taken now to insure an adequate program of public works soon enough to make it possible to avoid reliance upon "handouts".

If the assumptions upon which the above analysis is based appear reasonable and if the analysis is valid, then it might be wise to shape national policy so as to be able to cope with the employment and unemployment problems which may confront us in the period between war's peak and peace. If that situation is managed wisely, unemployment need be but of short duration and we can hope for a steady increase in national income and a continuing improvement of our national well-being.

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GOVERNMENTAL CONTROLS OVER MARKETING AFTER THE WAR

By RICHARD V. GILBERT
Economic Adviser and Director of Research
Office of Price Administration

CONTROLS, whether of marketing or of any other aspect of the economy, are on everyone's mind. For we are, all of us, a little weary of wartime controls, and we want to know how soon they can be lifted.

We have had two years now of the most intense effort, so that everyone is feeling the cumulative strain. We have had two years of government orders and regulations, which have been irritating under the best of circumstances and maddening under the worst. And we have had two years in which government has stood in the way of increases in prices, wages, and profits—increases which were easily attainable in the open market except for the intervention of government. In our minds most of us may still agree that these things are necessary in wartime, but in our hearts we don't like them. And after two years, it is not surprising that we are a little tired of it all and want to know how much longer these controls must continue.

I can speak, of course, only for the Office of Price Administration, and discuss only the price and rationing controls. On this score, let my say flatly that the price and rationing controls will be lifted, piece by piece, at the very earliest moment consistent with the national safety. Since it has been said from time to time that the OPA is staffed with ogres who enjoy regulating for the sake of regulating, some may be inclined to take this assertion with a grain of salt. If anyone is so inclined let me say to him: Thumb through the Congressional Record, scan the front-page headlines, turn on any news broadcast, or sit in on any OPA industry conference, and see just who is dishing it out and who is taking it. If there are any in the OPA who liked their job to begin with, they know better now. They've learned the hard way.

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Mr. Gilbert is a member of the American Statistical Association, the American Economic Association, and Phi Beta Kappa. He is one of the authors of *An Economic Program for American Democracy* (1938) and has written numerous articles.

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The price and rationing controls, like the production and other controls, were born of the war and will disappear when the war is over. I am sure everybody recognizes this, but it is a generalization which needs development. These controls have grown out of the economic impact of the war. It was not the mere declaration of war that made them necessary—and need for them will not disappear the moment the enemy surrenders. Obviously a war economy operating at top speed does not become a peace economy by a stroke of the pen. It would be too much to expect, therefore, that wartime controls will disappear with the termination of hostilities.

PRICES AND WAGES IN WORLD WAR I

We all recall that after the last war price controls were discontinued almost immediately upon the signing of the Armistice. The result was a rapid upsurge in prices and wages. Fully 40 per cent of the total inflation in that period took place after the cessation of hostilities. On specific prices and specific wages, the proportion was much higher. And in 1920 and 1921 came the aftermath, and the nation paid a bitter price for its haste in removing wartime controls.

Prices and wages went into a tailspin. Within 12 months corporation profits were practically eliminated, falling more than 90 per cent. Wholesale industrial prices dropped 40 per cent, slashing the value of inventories by $11,000,000,000. The loss on inventories alone wiped out most of the financial reserves that had been acccumulated during the war.

What happened on the industrial front happened on the wage and farm fronts too. Weekly payrolls fell by a third, and millions of men lost their jobs. Farm prices were cut in half, and the solid gains, as well as the paper prosperity, of the farm community went up in smoke. And that is exactly what can happen after this war if we neglect the lesson of experience. The premature lifting of price controls, releasing pent-up civilian demand at a time when government expenditures are still at war levels, would put us right through the roof. Once that happened, nothing could prevent a repetition of 1920-21.

It seems to me imperative that we now resolve, whatever the burden of wartime control, to see it through to the very end. Everyone knows that in the last lap the runner isn't as fresh as he was at the gun. But everyone knows too that the race is won by that last burst of speed down the home stretch.

Now, I don't hear any cheers over the somber prospect I have sketched; for we all recognize that we are a long way from the final wind-up of the war. Let me say at once, therefore, that this war will probably take a very different course from the last. That war was fought essentially in a single theater. It ended all at one time. This war is being fought in many theaters, and the best opinion is that it will end, not all at once, but piece by piece.

There is high authority for the view that the Germans will be licked in 1944 and the Japanese in 1945. It is not the precise timing that is significant for the purposes of our discussion, but simply the fact that a lag of a year or so is expected between victory in Europe and victory in Asia.

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POSTWAR OUTLOOK

The termination of the war in Europe will work deep-seated changes in our economy. It will reduce war production requirements and greatly alter their character. It will very probably also mean a reduction in the size of our armed forces, and the release of men for civilian employment on farm and in factory. It will decrease government requirements for consumer goods, and, at the same time, increase the supply available to civilians. It will release raw materials, facilities, and manpower for reconversion. The latter development, which will affect the hard goods, will be reinforced by the change in the character of the war. There is every reason to believe that the character of the war in the Pacific will result in a reduction in government requirements for steel and non-ferrous metals, and the facilities for their fabrication. These will become available for other uses.

The end of the war in Europe will also make available the supplies currently beyond our reach. I am thinking of Canadian wheat, Argentine hides, Cuban and Puerto Rican sugar, bananas from Central and South America, and many other products for industrial and consumer use.

The liberation of occupied territories will, of course, increase the requirements that must be met out of the resources on hand. But it must not be forgotten that these nations will bring us not only mouths to feed but hands to produce.

Finally, there will be enormous stocks, held by our own armed forces and by those of our allies, which will in some part be released for civilian use.

From all these factors we can conclude that we shall have substantially greater elbow room. Our price and rationing controls will be adjusted accordingly. What will this mean so far as specific prices and rationed commodities are concerned? Obviously, no one at this time can provide a definite time schedule for the relaxation of controls. But we can at least trace the probable course of developments in broad outline.

FOOD PRICE AND RATIONING CONTROLS

With regard to foods, it is a safe proposition that the situation will continue tight until the first full harvest after the first European planting. Until that time, the forward thrust of our armies in Europe can only add to the number of mouths we must feed out of our common supplies, without adding to the supplies themselves. On the other hand, the first full harvest will mark the transition from scarcity to abundance, or perhaps even to surplus. There may be some question about dairy products and meats, which have a long production cycle. There can be no question as far as other foods are concerned.

If, by a miracle, the European war should end sufficiently early in the year to permit a full planting this spring, the food shortage would end this coming fall. It is much more likely, however, that the war in Europe will terminate sometime between the spring of this year and the spring of next. This means that the food shortage will almost certainly continue until the fall of 1945. In my judgment, the price and rationing controls on foods cannot be materially relaxed

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before that time. However, I think it reasonably safe to say that the need for food price and rationing controls will disappear in the fall of 1945, irrespective of how long it may take to bring the war in the Pacific to a close.

CLOTHING AND TEXTILES

In the field of clothing and textiles, too, the end of the European war will be of decisive importance. Despite the government's huge requirements and the decrease in manpower during the past year, shoes are the only item we have been obliged to ration. The end of the European war should sharply reduce the government's needs, resulting in the release of a larger fraction of production for civilian use; and production—now restricted by the manpower shortage—will snap back to the peak levels of 1942.

European requirements for clothing, like those for food, will of course increase as territories are liberated. On the other hand, the vast textile capacity of Britain, France, and Germany will be quickly brought into use. And there will be available at the same time the huge stocks in the hands of our armed forces and those of our allies. In a matter of months after the fighting in Europe comes to an end, the clothing and textile markets should soften significantly. So far as shoes are concerned, in addition to the factors indicated, we must take account of the increased supply of leather, which waits only upon increased availability of shipping. In my opinion, our controls in this entire field will be lifted shortly after the end of the European war.

CONSUMER DURABLES

Let us consider one other area—consumer durables. Modifications of our war program have already lifted the pressure from a number of basic raw materials, at the same time releasing facilities for their fabrication into consumer durables. At the moment we are still confronted with a manpower shortage, which prevents the full conversion of the facilities and the full utilization of the raw materials. Nonetheless, the speed with which many of the consumer durables will reappear will, I think, surprise most people. By midsummer we should have ample supplies of the smaller hard goods. By the end of the year we shall be far beyond that.

This process, which may be termed reconversion, and which is already discernible, will really take hold when the European war ends, for the reasons I have already indicated. Within six months of that time, I believe that we shall be in relatively full production of consumer durables. By the end of the Japanese war, not only is it probable that we shall have reconverted for the production of cars, refrigerators, washing machines, and a host of other items, but that we shall have been producing these items at peak rates for quite some time. In this field, too, I think there is a strong probability that the end of the war on all fronts will find us well over the hump of reconversion, with the major pressures on prices sharply reduced. Indeed, there is the possibility that in the raw material markets, prices may be falling away from our ceilings even before the war is over.

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At this point a note of caution is called for. No one can predict with any confidence what the course of the war will be. It may take longer than many assume. Furthermore, in the event that it should terminate simultaneously in all theaters, the problems we should face would be wholly different. It would be imperative, therefore, to retain price and rationing controls for a considerable period beyond the cessation of hostilities. This we know from our experiences after the last war. We must all be prepared for any eventuality, even for a long period of controls during wartime and well beyond the termination of actual fighting.

Whatever the assumptions we may make, I find it difficult to see how anyone can draw much comfort from them. For whatever the timing may be, reconversion presents difficulties which far exceed those we overcame in mobilizing the economy for war and those we face today under wartime controls.

When prices drop away from our ceilings, what then? We shall all find it fruitful to do some thinking on this question.

The magnitude of the task of reconversion and demobilization literally staggers the imagination. And we have had no previous experience to guide us. During World War I, industrial production increased by about 25 per cent and farm production by slightly under 10 per cent. This time industrial production has more than doubled, and farm production has increased over 20 per cent. In part this striking contrast represents the non-comparability of measurements made in the two periods; in part it represents the greater under-utilization of resources preceding this war. But for the most part it represents a vastly greater expansion of plant and facilities this time and a much more effective mobilization of our resources.

Furthermore, the economy this time has been not only pushed far closer to its actual limits of output, but a full half of this greatly expanded production is geared to war, as against one-quarter last time. Surely the problems of reconverting our enormous plant, and at the same time sustaining a level of activity so far above that of the pre-war period, dwarf the problems that licked us after the last war.

The government today owns an industrial empire: billions of dollars of new plant, billions of dollars of new equipment, and tens of billions of dollars of inventories. Disposition of this plant and equipment must be made and use found for these vast stocks. Some people are urging the government to get rid of its holdings at the earliest possible moment and at whatever prices it takes to liquidate them. But such dumping of government property would demoralize every market and shatter the economy. There is every determination on the part of sober people to effect these disposals smoothly and with a minimum of disturbance. The difficulties are formidable and we cannot afford any false steps.

Today our labor market is geared to a 48-hour workweek, with time and one-half for all hours in excess of 40. The first effect of any general easing of the manpower situation will be the elimination of overtime. This follows inevitably from the penalty rates now being paid. Moving from a 48- to a 40-hour

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week will entail a cut of slightly less than 25 per cent in weekly take-home wages.

At the same time, reconversion will mean the shift of employment from war industries to civilian industries. Quite apart from the matter of overtime, this means a reduction in earnings, because highest wages are being paid in the war industries. Even if total employment is maintained at present peak levels and if wage rates remain unchanged, these two factors alone will reduce the annual purchasing power of wage earners by an amount not less than $15,000,000,000. Some people estimate it at $20,000,000,000. Can the economy take a cut of that magnitude? When prices drop away from our ceilings, how far will they drop? And how fast?

There is one difference between our position today and the situation during the last war which is very decidedly in our favor—a difference but for which, in my judgment, the outlook would be hopeless. I refer, of course, to the stabilization efforts, in which my agency has played some part. However hard to take our price controls have been, we stand today with a cost of living which has risen less than half as much as it did during the comparable period of the last war and with a structure of industrial prices which has risen only a quarter as much as last time. If we can hold fast to present levels, we shall end the war with a total rise in the cost of living only one-fourth as great and a total rise of industrial prices only one-fifth as great as that reached at the peak of our last war inflation; and with a price structure basically sound in both its general level and its internal balance. This may spell the difference between a smooth economic transition from war to peace and the tailspin of 1920-21.

But I should be less than frank if I did not say that, however great the difference this may make, the difficulties of reconversion and demobilization which we face are formidable. I do not think it is too early to face up to those difficulties. I might even say that we might do better to concentrate upon them rather than to dwell upon the wartime controls and upon how soon they can be removed.

Believe me, the time is not far distant when these controls will have only an historic interest, when our basic concern will be not preventing inflation but preventing deflation, not searching for techniques to hold prices down but seeking the means to support them. Whatever energies any of us can spare from our basic job of winning the war, I think we had better put into finding the answers to the pressing problems which lie ahead at the close of the war and perhaps even before the war is over.

We shall make better progress in working together to solve these problems if we can put behind us the mistrust and the lack of full collaboration which characterized the years before the war and which have been in part carried over into the war itself. To overcome the perils of demobilization and reconversion, and make a smooth transition from an expanding economy of war to an expanding economy of peace, we must pool all our talents and all our energies, and approach each other in complete frankness and good will. It is not too much to say that the hope of America—of its economic system and its way and standard of life—depends upon whether we meet this test.

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MARKETING SERIES NUMBER 56

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CHARTING SALES TO THE POSTWAR CONSUMER

BY

WILLIAM J. MOLL
GEYER, CORNELL & NEWELL, INC.

ARTHUR P. HIROSE
McCALL CORPORATION

RAYMOND RUBICAM
YOUNG & RUBICAM, INC.

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WHAT CONSUMERS WANT IN POSTWAR PRODUCTS

By WILLIAM J. MOLL
Geyer, Cornell & Newell, Inc.
New York, N. Y.

AS field director of the Chamber of Commerce of the United States and as director of its Postwar Consumer, Industry, and Civic Surveys, we started out more than a year ago by predicating our postwar studies on five gaugable factors:

1. That in the postwar period, this country will have the greatest plant capacity in its history;
2. That it will have the greatest source of raw materials, both natural and synthetic, we have ever known;
3. That there will be the largest number of workmen we have ever had;
4. That there will be the greatest pent-up consumer demand we have ever experienced; and
5. That we shall have the largest banked-up savings with which to satisfy those demands.

We began our work with a survey of consumer buying intent for the six months following war's end, starting with the fourth and fifth of the gaugable factors. Precisely, what will this pent-up consumer buying intent amount to? And how much money will consumers have to satisfy this demand?

After we had settled on the fundamentals of our plans, we made a pilot test —east of Cincinnati, north of Washington, south of New York—testing the technique, improving the questionnaires, feeling out the reliability of the response.

The results were so encouraging that we straightway embarked upon a national survey, from coast to coast, through a true cross-section of rural and

THE AUTHOR William J. Moll recently joined the Geyer, Cornell & Newell advertising agency in an executive capacity, after serving five years in Washington with the Chamber of Commerce of the United States.

Mr. Moll was retained by the U. S. Chamber while operating his own business consultant firm in 1938. He was later appointed national field director in charge of a large staff of field men throughout the country. In this capacity he instituted and directed the Chamber's Consumer, Industry and Civic Postwar Surveys.

Mr. Moll was born in Richmond, Va., graduated from the University of Richmond, and attended the Ecole Beaux Arts in Paris. His first job was with the Washington Herald, and later he joined the Cecil Advertising Agency. During World War I he served with the Army Intelligence in France, and was hospitalized.

After the Armistice, Mr. Moll joined the Proctor and Collier Agency in Cincinnati, and later opened and managed its New York office, resigning to become associated with the Gardner Advertising Agency as vice president, then executive vice president. After several years with Gardner, Mr. Moll resigned to establish his own counsel service in 1933, and continued it until he was retained by the U. S. Chamber.

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urban populations, and in three income groups comprising the mass market of America.

INCOME BRACKETS

We secured our responses through personal interviews with families—15 per cent in the income bracket above $2,500 (very few above $4,000); 52 per cent in the income bracket from $2,500 down to $1,500; and 33 per cent in the income bracket from $1,500 down.

We sought the man at his lathe, his desk, his counter—and after we got his answers, and before he could get home to lunch or dinner, we went to his home and asked his wife the same questions. The woman answered "automobile" as often as the man answered "washing machine."

Basically we got a family reaction.

The figures, at best, are very conservative. They are based upon a six months' intent. They cannot properly be considered predictions of actual postwar purchases, solely as a reflection of current consumer buying intention. In many instances, they probably represent sharp underestimates of the real consumer demand that will develop after the war.

FINDINGS OF SURVEY

But this one thing is definite. The figures in the report are not occasioned by desires borne of swollen incomes. Eighty-five per cent of the respondents said they intended to buy a certain article because the one they had was worn out. Only 15 per cent intended to own something they never owned before.

And what of these findings? Broadly, they include:

Roughly 64 per cent of the families in the United States believe they will make purchases of one or more major articles within six months after the war is over.

Purchases of new automobiles are planned by 3,675,000 families—an immediate postwar market for family automobiles of $3,307,500,000. In the consumer durable goods field, 13,725,000 families intend to buy articles ranging from mechanical refrigerators to electric irons—an immediate postwar market for major household appliances of $1,215,910,000.

6,440,000 families intend to buy home furnishings and floor coverings—an immediate postwar market of $711,410,000.

1,540,000 families intend to buy or build a new home within six months after the war is over—an immediate postwar building potential of $7,184,800,000.

And home and farm improvements planned total $7,500,000,000.

All together this amounts to about $20,000,000,000 worth of consumer buying intention for the first six months after the war. In addition, the report indicates that families are accumulating the necessary money for these purchases. There is a declared accumulated family savings of about $51,000,000,000, which lends further support to the conviction that careful planning, rather than wishful thinking, is behind this immediate postwar market.

Of course, these intentions will change. But it is certain that the longer the war lasts, the more things break down and wear out, the more these intentions

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will change into actual demands—although they may be conditioned by many circumstances not now foreseeable.

PURCHASES BY BUSINESS

But families are not the only consumers in our postwar economy. And it would not be right to leave this subject of buying intentions unless I touched upon another phase, now in process of evaluation.

The retail and service businesses, the distributing businesses, hotels and restaurants, utilities, and many industrial plants—faced with the same buying restrictions that face families, and with equipment breaking down and wearing out—also intend to buy immediately upon war's end.

Applying the same principles that guided our family researches, we are working out a true cross-section of buying intention in these groups. Researches are currently under way in carefully selected industries and communities which will give a valid 10 per cent cross-section of the nation. It will be several months before the results will be tabulated, but I can indicate some of the partial returns to date:

41.3 per cent of the retailers and distributors intend to make improvements in their properties immediately following the war. They intend to spend money for new mechanical equipment, delivery equipment, new store fronts and windows, air conditioning, new counters and shelves, the remodelling of interiors, new typewriting machines, new bookkeeping machines, new calculators, new furniture, new carpets and linoleum, new lighting equipment, passenger cars for salesmen, utility cars, miscellaneous.

The average expenditure for these items seems to be $8,600. If the percentage holds at the end of the surveys, and the expenditure holds its average, we can look for an immediate postwar buying intention on the part of retailers and distributors of $6,647,000,600. And 83 per cent indicated that they had sufficient funds with which to complete their intended operations.

62 per cent of the restaurants in America intend to do one or more of the following: put in new store fronts, build new additions, remodel public rooms, remodel guest rooms, insulate, put up new signs, with an average expenditure of $5,100—an immediate postwar market amounting to $313,252,000.

89 per cent of the restaurants intend to do one or more of the following: paint their premises; lay composition flooring; purchase carpets; buy new furniture, new upholstery, or new drapes; with an average expenditure of $5,250—an immediate postwar market of $462,892,500.

60 per cent of the restaurants intend to do one or more of the following: install new heating and plumbing, refrigeration, air conditioning, power plants, elevators, acoustical treatments, with an average expenditure of $5,550—an immediate postwar market of $324,342,000.

45.5 per cent of the restaurants intend to purchase one or more of the following: new laundry equipment, new kitchen equipment, water softener, dining room equipment, office equipment, with an average expenditure of $3,500—an immediate postwar market of $142,362,500.

In these few fields alone, then, there is a potential of $7,899,481,600 to add to the $20,000,000,000 of family buying intent.

In the postwar economy, you may be sure that we shall have entirely new

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problems. Problems which are different, bigger, with less precedent than any we have ever faced before. What served the purposes of our economy before the war will not serve afterward. To me, even the few simple items we have been discussing are only the beginning. They are the alpha of an equation for which the omega has not yet been written.

To meet the challenging opportunity which is now before us, we must work to correct war's maladjustments by sober, careful research, and appropriate private and public policy based thereon. Unless we do, we cannot expect to have active business and high levels of employment.

We must meet this challenge if we are to guarantee progress and hope and opportunity for mankind, and maintain our progressive and dynamic freedom.

* * * * * *

Question: About how much greater do you estimate the postwar demand will be than the normal demand would have been, had there been no war?

Mr. Moll: It is possible only to make a guess, but the six months' demand shown in the third progress report is actually greater than the sales of the same articles for the entire year of 1940.

Question: Don't you think the average family will dissipate the funds intended for major purchases by buying smaller things if the major items are not available during the first six months?

Mr. Moll: That may be possible; but the survey shows that the money is being saved in definite ways. Some of the families intend to make the purchases by cashing in their war bonds; some are creating savings accounts for special purposes; others expect to buy through partial payments, and still others out of current income.

Now whether those funds will be dissipated on smaller purchases, I don't know. I think the answer depends on a good many things: on how earnestly the manufacturer keeps his product or his trade name before the public, for instance, and on how earnestly the gadget man tries to take that money out of circulation.

Question: How do the indicated annual volume figures for consumer durable goods check with projections in these fields made by the Department of Commerce in *Markets After the War?*

Mr. Moll: Pretty closely, I understand, and they also check closely with the figures obtained by manufacturers who have projected their sales potentials in the same fields. The automobile market as we uncovered it is, for instance, just slightly larger than the manufacturers think it will be.

Question: Does the report show how the savings are distributed by income levels?

Mr. Moll: Yes; figures are tabulated by income levels, and the proportions saved by families in rural areas, small towns, and large cities are shown.

There are half a dozen different factors that enter into it, and most of them will be governed to a large extent by what marketing men do.

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Question: How many interviews were there in the survey? How many states were covered?

Mr. Moll: How many there should be is always a controversial question, isn't it? Mr. Gallup says that a true cross-section of 500 will give you the answer you want, and a good many people stop at 2,500. Our official figure is 12,000, and interviews have been conducted in every state in the union.

Question: You spoke of a $20,000,000,000 family buying intent, and accumulated savings of $51,000,000,000. Does the latter figure include accumulations of business organizations?

Mr. Moll: It includes families only; accumulated savings for the business concerns have not been calculated yet. However, 83 per cent of the businesses I mentioned already have sufficient funds to finance the postwar purchases they are planning.

Question: Were any farm families included in the survey?

Mr. Moll: Yes, a large number, although I do not recall the figure at this moment.

PRODUCTS, MARKETS AND RESEARCH

By ARTHUR P. HIROSE

Director of Market Research and Promotion
McCall Corporation

THE war is by no means won. Hard fighting lies ahead before Germany and Japan are brought to their knees. And yet the time grows short for manufacturers to plan for partial or total reconversion to peacetime goods. Materials will soon be available for new-product and new-model experiments. Now is the time to plan not only for peacetime products but also for their markets.

Everyone realizes that when the war is over there'll be no return to the good old days. Instead we shall face new competition, new products, changes in markets, new methods of marketing, which may force the unprepared manufacturer to the wall. In view of these new conditions, it is evident that there will be no place in the postwar world for guesses or hunches. Planned and effective market research will be needed to select new products or new models of old products, to determine potential markets for these products, to define new sales territories, and to correlate sales, promotion, and advertising efforts with sales representation.

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There is nothing startling in these statements. Undoubtedly you are aware of the importance of market research in planning for postwar conditions. But since so many manufacturers have for more than two years been serving just one large customer—Uncle Sam—instead of competing for the favors of many customers, it seems appropriate to review briefly, step by step, the procedure by which market research can be applied to new products and markets.

SELECTING NEW PRODUCTS

Many manufacturers today are trying to decide whether or not to enter entirely new fields, and bring out brand new products, foreign to their pre-war line. In the past, only one out of every three new products has been a success. Some inferior products, it is true, have sold in quantities, because they were backed by heavy sales effort, promotion, and advertising. But neither producer nor buyer benefits from such an operation.

In attempting to ascertain the fields and industries that offer the most logical opportunities for new product developments, two books on market research are almost required reading.

In *Markets After the War,** by S. Morris Livingston of the Department of Commerce, the author analyzes the postwar market to be expected if full employment prevails and the opportunities that such a national market will offer to individual businesses and industries. This study also includes estimates of the dollar volume of various commodities, which can be projected for individual industries in the postwar period.

The second publication is the continuing study, initiated by William J. Moll and conducted by the U. S. Chamber of Commerce, to determine postwar needs and America's capacity to meet them. In connection with this and similar local studies, the number of families who plan to buy each product, commodity or service is probably less significant than the percentage shifts from one product to another as the survey progresses.

Those of you who manufacture household goods will probably be interested in the reports that will be issued this year by *McCall's Magazine*, based on the

* Available from the U. S. Government Printing Office, Washington, D. C.

THE AUTHOR Arthur P. Hirose, director of market research and promotion for the McCall Corporation of New York, publishers of *McCall's Magazine* and *Redbook Magazine*, is also serving as research coordinator for the War Advertising Council.

Prior to joining the McCall organization nine years ago, Mr. Hirose was for a number of years manager of the market analysis and sales promotion departments of a group of McGraw-Hill business publications, as well as an editor for the same organization.

Mr. Hirose is past president of the Market Research Council, a charter member and treasurer of the American Marketing Association and a member of the National Association of Public Relations Counsel. He won the Research Medal in the Annual Advertising Awards (formerly the Bok-Harvard Awards) in 1941.

Mr. Hirose has addressed many business associations and has contributed articles on business, marketing, research, advertising, and other subjects to such varied publications as *Advertising & Selling*, the *American Marketing Journal*, *Better Homes & Gardens*, the *Encyclopedia Brittanica*, the *New York Times*, and *Printers' Ink*.

Born in New York City, Mr. Hirose attended primary and secondary schools there and studied at New York University.

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tabulations of entries in its "Home of Tomorrow" contests. In these contests women all over the nation register their preferences for household equipment and furnishings for the living room, the dining room, the kitchen, and the bedroom.

Objective, cold-blooded market research can be of invaluable assistance in deciding whether you should make and sell an entirely new product. Either a sympathetic outsider or impartial members of your own company will want to gather and analyze facts and figures on the following subjects:

1. Your *manufacturing facilities* compared with those of your competitors. Under this heading, include surveys of the machinery and plant facilities your organization possesses or can secure; relative availability of materials and labor supply; also facilities for transportation of raw materials and parts into your plant and the finished products out of your plant. In all this research work it will be necessary to take into consideration not only conditions that applied before the war and during the war but any new factors that will be present after the war.
2. Your *sales organization* compared with those of your competitors. Fortunately the day is long past when management decided to institute a new product without consulting the sales manager. In considering a brand new product for postwar sales, the existing sales organization or one that could be built up must be contrasted with those of companies that have been in the field a longer time. Have your sales representatives the necessary technical knowledge to handle the product? Do they now call on distributors or users of this class of product? Will they be capable of handling the new product in addition to your pre-war line, or will an entirely new group of sales representatives be needed?
3. Your *distribution facilities* compared with those of your competitors. Research is necessary to discover how your pre-war outlets or buyers differ, if at all, from the outlets or buyers of the proposed new product. Will your company's present reputation aid in selling the new product or will prestige have to be built up from scratch in entirely new distribution channels?
4. To *buy* or to *build?* Market research can help you make the right decision—should other facts point to the wisdom of branching out with a line of products new to your pre-war operations—on the choice of entering the new field from the ground up, or buying a going concern and thus acquiring an established trade name and existing trade outlets or distribution channels.

Market research can guard you against the most insidious new-product disease I know: the *greener pastures* disease. These are days of excitement and emotional feelings about postwar markets. There is talk of the big potential markets in plastics, in household appliances, in radio and electronics, in synthetic fabrics, in foods, in packaged drug products, and in the prefabricated home field. The sober and factual analysis that will decide whether a new product should be introduced at all can be made through intensive research.

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Three cases come to mind in which market research would have prevented new-product mistakes. One is that of a vegetable canner who expanded his line by entering a highly competitive market with a new coffee and failed to achieve outstanding success. Market research would probably have shown that a canned vegetable soup would have been a better new product to introduce at that time. The second instance is that of a company selling a line of low-priced household necessities. Without market research, this firm brought out a specialty selling for well over $100 which could not be sold successfully by the existing field organization. The third case where market research would have prevented a costly new-product mistake is that of a company selling specialized machinery on a custom-built basis to a limited number of large companies. This company attempted to bring out and market a household clothes washer at a time when it had no consumer-goods sales organization and no contacts with any retail stores—with the results that might be expected.

I recall the case of a concern making industrial products which did conduct market research *before* it decided to bring out a consumer goods item to be sold through drug stores. After making the necessary study, this company gave up the idea of entering a field foreign to its bread-and-butter products.

Market research can do much more than merely reveal the number of competitors you are likely to have if you manufacture a new product; it can do more than disclose what past sales have been. It can help you determine the most logical field on the basis of your present business, your company's size, the capital requirements, and a host of other vital factors.

DETERMINING POTENTIAL MARKETS

Whether you are considering bringing out a brand new product or whether you are merely considering new or revised models of older products, here is how market research can be of assistance:

The kind of products consumers want and need: No one is so enthusiastic as an inventor or designer, but we have learned to temper the enthusiasm these men have for their new products. While a surprisingly large number of manufacturers do not make adequate surveys, it is commendable that many are now using personal calls or mail surveys to find out what consumers want or would want if it were available. General Electric, Norge, Crane, and Montgomery-Ward are just a few of the manufacturers which are covering every phase of new-product development by surveys among prospective users. In the industrial field, makers of safety switches, air conditioning equipment, lighting fixtures and other products are doing similar work.

If you were planning on introducing an item in the low-income market, you would not interview the wives of your friends at the country club. You would probably recall the fiasco of the late *Literary Digest* presidential poll of 1932, and would be certain that the people you went to for new-product opinions were not only adequate in numbers but representative as well. Many of the surveys being made are ingenious in their use of pictures and diagrams, as well as in the

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thoroughness with which they probe for suggestions and comments from users and suppliers.

The kind of products dealers or suppliers want to sell: While surveys among prospective users of new products are important, so, also, are surveys among the dealers, wholesalers, or suppliers who will sell these new products if you manufacture them.

Recently I went over a comparison of two studies on gas ranges. Housewives or prospective users were polled in one survey and retailers or prospective sellers in the other. The correlation between what the housewives and the retailers wanted in a postwar range was high, in most instances. The manufacturer could go ahead on the color of his ranges, the number of burners, their arrangement, the location of the oven, and the storage space, confident that both dealers and users would be satisfied.

But interestingly enough, housewives and dealers were poles apart in four items of range design. Far fewer housewives than retailers voted for top covers to conceal the burners on the gas range when not in use. Dealers underestimated the users' demand for glass windows in the doors of range ovens. Housewives and dealers disagreed radically on the type and location of the broiler.

This case illustrates how thorough market research on new products can educate retailers on what prospects *actually* want—not what retailers *think* they want. Such studies will furnish ammunition for better sales presentations, and also supply competitive data for advertising campaigns.

Many manufacturers insist that in their own particular industry product changes will be evolutionary, rather than revolutionary. Yet these same manufacturers talk somewhat breathlessly about the product changes they expect to see in other industries. Is this naive? Is it inconsistent? Certainly market research surveys are necessary to find out exactly what each company's customers and suppliers are expecting in the way of product improvements—radical or otherwise—and how soon after the war they expect such product changes.

It is axiomatic that the new-product needs and desires of users and dealers or suppliers should be determined *before* a new product is brought out. One area of profitable market research will probably be surveys among repair men to ascertain what parts of pre-war products developed weaknesses, so that these weaknesses can be eliminated.

Probable markets for new products: Exhaustive market research should be conducted to determine the probable market for any proposed new product on such subjects as saturation figures, past sales, sales potentials, replacement rates, buying habits, etc. This can supply the answer to such important questions as: How often would the new product be bought? Where would it be bought? How often would it be used?

Trade name considerations: The selection of a good trade name—a name that is readily remembered and recognized, simply pronounced and spelled, and descriptive of the product, etc.—is also facilitated through market research. There are at least one manufacturer of chocolates and one manufacturer of sheets and pillow cases whose stories might possibly have been different had

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studies been made to determine whether or not their trade names were pronounceable.

Packaging problems: Research by trained investigators recently disclosed the fact that women would like pouring spouts on pepper cans, as well as on salt cartons, and replaceable, air-tight covers on packages of products such as raisins, dates, and marshmallows where the complete contents of the package often are not used up at one time. Similar studies revealed that women would like face powder packaged in containers designed to avoid spilling.

Packaging research is particularly worthwhile because of the increase of self-service selling and the fact that wartime package substitutes have made consumers more package-conscious.

Research will probably uncover the fact that in the new postwar homes, where kitchens and dining rooms will frequently be combined into a dual-purpose room, packages will be more on display. It will undoubtedly indicate the wisdom of a spice manufacturer's packaging all his various products in containers with a common decorative motif.

Prices, discounts, and margins: Here is a fertile field for market research. Competition must be studied, and postwar incomes, taxation rates, and installment terms must be analyzed.

In a study of prices, one manufacturer, for example, found that trade-in allowances granted by his dealers varied so widely that his established list prices were practically meaningless.

Discounts and margins need careful investigation in view of the postwar determination to cut the cost of distribution. The importance of lowered distribution costs must be balanced with the requirements of the selling job on a new product sold competitively.

The result of price, discount, and margin research may aid the management of a small company in deciding to offer a new product only in a high-priced line, leaving the low-priced field to larger companies.

In any market research on the subject of prices for new consumer products, the spending and saving pattern of the American people is worth at least general study. You'll probably recall the government's *Consumer Purchase Study of 1935 and 1936.* Data in form comparable to this important survey has been compiled by the Department of Labor: *Spending and Saving of the Nation's Families in Wartime* and *Income and Spending and Saving of City Families in Wartime.* In these surveys, a comparison is made of the distribution of income and family expenditures for 1941 and 1942.

General sales policies—distribution: Market research can be utilized by manufacturers to determine how new products should be sold. In the case of consumer goods, the answers must be found to the questions of whether to sell to wholesalers, to retailers, or direct to the consumer. In the industrial goods field, market research can be used to determine the best distribution channels.

The only way to arrive at a solution to the problems of manufacturers who sell in trades where the war has resulted in mortality of dealers or wholesalers, or where shopping habits have permanently or temporarily changed, is through

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intensive research. Market research can evaluate the trend from neighborhood grocery stores to supermarkets, and from department stores to suburban branch stores.

INDIVIDUAL MARKETS AND SALES TERRITORIES

After helping manufacturers to decide what new products should be brought out for the postwar period, market research also can be of assistance in evaluating individual or local markets and in reallocating sales territories.

Among the factors resulting from the war will be changes in age groups and income levels, shifts in the distribution of the sexes, further population shifts, a decentralization of population, a growth in newer, smaller communities, changes in distribution, and changes in industrial markets themselves.

Age groups: The past two years have seen a significant increase in the number of marriages and births. But as more of our young people in the armed forces are sent abroad, declines will be registered. Furthermore, war casualties will be largely among young people. This means that after the war America will have more older people, but fewer children and young people. Perhaps you have been accustomed to selling products that had special appeal to younger people. Market research can help you evaluate these changes in terms of your own products.

Income levels: It is bromidic to say that the war has changed income levels. It has cut down the numbers of the rich and moved millions of low-income families into the middle-income group.

After the war, there will probably be few salaries as high as those of today's war jobs. Among wage-earning families, there will probably be fewer members of the family employed. It is also probable that there will be a change in the entire consumer goods market, with a reduction in merchandise for the luxury market, an increase in utility-type goods for the middle classes, and less call for the cheapest, shoddiest products.

To what extent will new income levels affect your own products? To what extent should your price structure be revamped? Market research seems indicated here.

Distribution of the sexes: Even before the war, the numerical majority of men over women had been almost obliterated. War, with its casualties among younger men, will further increase the numerical advantage women will have over men in the postwar days. Market research will probably develop in detail the fact that women will be the more important buyers of all consumer goods when the war is over. Certainly the manufacturer who in the past has marketed his products to either men or women, or both, needs market research to visualize how the postwar distribution and rank of the sexes will affect his business.

Population shifts: The war has brought with it a migration of population never before experienced in the nation. An estimated 3,000,000 workers, some with their families, have moved from their former homes to locations near war industries. When the war is over, population will shift again, but not necessarily back to pre-war locations.

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Decentralization of population: This is anticipated, based largely on the location of newer, more efficient factories. Some of the older cities are not expected to maintain their rate of population growth because they contain the older, multi-storied factories where efficient, straight-line, economical production is not possible.

The newer, one-storied factories, largely in smaller communities, have the facilities for straight-line, economical production, possess ample grounds for the parking of employees' cars, and, above all, own nearby cheap land on which adequate houses for workers can be built.

New, small communities: It is the newer, smaller communities which are expected to experience the postwar population growths. Such communities will alter the distribution picture considerably. Obviously, too, industrial markets will shift in location from the pre-war pattern, just as their rank in importance will shift.

Fortunately, the Census Bureau and other government agencies are constantly releasing studies that will assist the manufacturer in planning for his postwar markets. A new estimate, by counties, of civilian population in the United States, was released last October showing the shift in number and percentages from the 1940 census. Similar figures, based on registration for ration book number 4 (ration book distribution is the basis for these recent population estimates), are now in preparation and should be released early this year.

Another helpful government study, just released, *Regional Shifts in Population, Production and Markets,* is issued by the Department of Commerce. It covers the period of 1939 to 1943 and describes the regional pattern of war production by states and geographical sections. It estimates in-migration and out-migration, civilian employment, income payments, and the number of business establishments, on the same basis, with changes by years. Data also include regional trends in bank debits, electric energy consumption, and manufacturing activity.

A new project which will aid manufacturers in market research is known as *Regional Indices.* In it the Department of Commerce gives periodic reports on local business conditions, based on a composite index of economic factors.

The magazine *Sales Management* issues annually its "Survey of Buying Power," reporting on shifts in effective buying income, retail sales, and population—including data for states, counties, and major trading areas. The 1943 edition contains for the first time a "Percentage of U.S.A. Potential" and a "Quality of Market Index"—factors to be utilized in measuring sales potentials of individual city and rural markets.

Another magazine, *Editor and Publisher,* puts out yearly a statistical issue, "Market Guide," covering over 1,500 cities and towns, with data on incomes, purchasing power, population, employment, industrial activity, etc.

Boston University in 1942 issued its *New England Community Statistical Abstracts,* which contained statistical, economic, and social data for 175 New England cities and towns, such as figures on population, employment, manufacturing activities, retail and wholesale sales, etc. At the other end of the nation, a special Advancement of Business Committee last year prepared for the Pacific

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Advertising Association a study entitled, *How War Is Changing Pacific Area Markets.*

These studies are typical of the wealth of information available to the company which sees the wisdom of applying market research studies to its postwar problems, especially in terms of evaluating local markets and allocating sales territories.

Rather new, I believe, is the willingness of the Bureau of the Census people to stick out their necks and help business evaluate *probable* changes in local markets. For this reason we owe a debt of gratitude to Dr. Philip M. Hauser, Assistant Director of the Census, for the survey he has made of 137 metropolitan areas and how they will probably fare in population prospects.* Dr. Hauser has studied the population of these metropolitan areas in the booming '20s, the depression '30s, and the war prosperity of the '40s. He segregates those areas that are likely to retain their war growth in population, those likely to lose their war growth, etc. These estimates—and Dr. Hauser would be the first to insist that they are only estimates—should be studied by every sales manager interested in properly allocating territorial potentials after the war.

Shifting industrial markets: The manufacturer of industrial products—goods sold to industry—needs market research for the postwar period perhaps even more than the maker of consumer goods. The war has not only shifted and enlarged many industries, but it has also given rise to a large number of brand new industries and plants. Some of these plants will lose their importance when the war is over. Others will grow to new importance.

Market research can aid the seller of industrial goods in reappraising his markets nationally and also on an area or local basis. The studies being made by industrial magazines, such as those published by McGraw-Hill, can be of considerable assistance.

NECESSITY FOR INDIVIDUAL SURVEYS

While a great deal of statistical information is available to manufacturers who are preparing for postwar marketing, most will need to conduct special research of their own.

Studies of local markets are especially desirable in the postwar years to correlate promotion and advertising efforts to sales representation. This is a principle that is obvious, but all too often ignored.

For instance, a liquor company would be unwise to invest large sums in sales promotion in regions where church attendance is unusually high or where the W.C.T.U. is inordinately active. Similarly, a coffee company should not attempt to peddle a light blend in a city like New Orleans where a heavier roast has traditionally been preferred.

The postwar period will see the introduction of many new automatic clothes washing machines for home use. Through market research, manufacturers of these products can evaluate their local markets, in terms of those with cheap

* See "Population Shifts and Income Changes," by Philip M. Hauser, *Marketing Series No.* 52, American Management Association, 1943.

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household labor, like the South; the hard water districts, where special laundering problems are likely to be encountered; the localities where soot and smoke are most prevalent; also where extra advertising and sales promotion would be most fruitful.

Before the war, manufacturers of electric ranges knew that only certain light and power companies granted low cooking rates for the use of electric ranges. One manufacturer made an intensive study, state by state and community by community, of the cooking rate situation. This manufacturer was better able to coordinate his sales efforts to local markets than were his competitors.

In the competitive struggle that is bound to ensue in the postwar period, the manufacturer who gathers the best collection of usable facts on the local, specialized, and geographical habits and customs of each of his individual markets will be in a better position to sell and advertise effectively.

WHO SHOULD CONDUCT MARKET RESEARCH?

In the past it has been the larger manufacturers, such as General Electric, du Pont, General Motors, Lever Brothers, General Foods, Lamont Corliss, Sylvania, Westinghouse—to mention just a few—which have found a market research department of their own a great asset in product and market research work. But in preparation for the postwar period, many smaller companies are now developing their own market research staffs. By and large, no company is too small to benefit from the services of at least one trained market research worker.

Independent commercial research organizations offer special advantages to their clients. For example, it would be difficult for one manufacturer to support a continuing study of food and drug outlets like that conducted by the A. C. Nielsen Company. Equally, in the field of radio checking, the Crossley and Hooper organizations have facilities not possessed by individual manufacturers. Certain trade and consumer studies require many more trained field investigators than can be kept on the payroll of the average manufacturer. In addition, market research organizations have had wide experience in working on the diverse problems of a large number of manufacturers, and have a detached, objective viewpoint.

When confronted with product and market research problems, manufacturers will find of value contributions which can be made by government bureaus, advertising agencies, and such advertising media as consumer and business magazines, newspapers, the outdoor advertising bureaus, etc.

MARKET RESEARCH AS A CONTINUING OPERATION

Market research is no occult process. It is applying common sense to fact finding—obtaining all the data top management and sales management need to make decisions. On the other hand, it is work which calls for technical skill and is best handled by trained workers, not by amateurs. It is not a job to be turned over to your salesmen to be tossed off in their odd moments.

Above all, market research is not a one-time, one-shot operation. No one

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s more unfortunate than the manufacturer who, having made one study, thinks ie has the answers for all time. You can probably recollect, in your own indus-ry, instances of the truth of this statement. I can buttress it by reminding you if the case of clothes washer manufacturers, who, because of the lack of product nd market research, awoke to see the successful automatic clothes washer being ntroduced by a rank outsider.

Market research is a worthwhile investment. It pays its way by insuring hat your products will continue to meet the wants and expectations of your cus-omers. It insures an up-to-date knowledge of national and local markets. But narket research must be a continuing operation in order to help develop new ources of profit by discovering new markets and new products. As a continuing peration it is insurance against unanticipated changes that might make a product or industry obsolete.

It will breed confidence in your organization to know that not guesses and hunches, but continuous, intelligent market research is helping management make the right decisions.

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Question: Our company, a national distributor, recognizes the need for market research; but most experts in research seem to have received the greater part of their training and experience in consumer goods industries, and do not know too much about our specialized field. How would you suggest that we go about making the necessary study for the postwar period?

Mr. Hirose: If you lack the facilities for market research in a specialized field, it would be well to go to an outside research organization.

Question: Where can I get postwar forecasts on the sale of electrical appliances?

Mr. Hirose: Dr. Livingston's book, *Markets After the War*, gives some forecasts, and Mr. Moll's Chamber of Commerce study will be helpful also. In addition, a number of the business publications in the electrical field are working on postwar potentials in electrical appliances.

Question: Have you any idea of what percentage of sales, or of the sales and advertising budget, should be devoted to market research?

Chairman C. B. Larrabee (President, Printers' Ink Publishing Company): That is one of those questions like how long should a man's legs be and how high is up. However, I recommend to anybody who would like to see some figures broken down by industries a study made by the Federal Trade Commission, covering, I believe, some 79 industries. And if you will pardon the plug, *Printers' Ink* published a chart of market costs, which shows that the percentage figures vary tremendously by industries. For instance, as much as 40 per cent is spent for advertising of proprietary medicines, while the steam train industry spends as little as .1 per cent.

Mr. Hirose: The only thing I should like to add to Mr. Larrabee's comment is that the percentage of the budget devoted by the average manufacturer to

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market research is usually not large enough. So many basic decisions go back to market research—sales policy, the products you put out, your advertising agencies, and so forth. Fortunately, advertising agencies are doing a job for manufacturers, spending large sums of money on product and market research. Mr. Rubicam's company, for example, bases many of its decisions on sound market research.

Question: If market researchers must be trained, where and how can they get that training?

Mr. Hirose: They can be trained in your own organization; and of course, a very simple way is to let somebody else train them and then raid them.

Question: Do you feel there is justification for the employment of a market research analyst by a manufacturer selling a specialized technical product to industries only? The sales of this company approximate $15,000,000 a year. Or, can the same job best be accomplished through a market research organization?

Mr. Hirose: I don't think it matters whether you employ a full-time market analyst or farm the job out to an independent research organization. Sales amounting to $15,000,000 need careful watching in terms of the unexpected things that could develop in the way of competition. This is a job for continuous market research, done internally, or externally by an outside organization.

NEW COMPLEXIONS IN ADVERTISING

By RAYMOND RUBICAM

Chairman of the Board
Young & Rubicam, Inc.
New York, N. Y.

THE title for this paper is "New Complexions in Advertising"; but after looking into my crystal ball, I have decided that "New Complexities in Advertising" would be better, because the postwar picture is going to be, I think, considerably complex.

It is a favorite sport to ask somebody in a given business to come and prophesy about it. But you are wishing on him the hardest job there is. If you don't believe it, do what I have just done—go to the "experts" in various branches of advertising, and ask them to read the future, even in their own special fields. You will find great conflict of opinion. In fact, you will not

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always know more when you finish than you did when you started. But, because there is a demand for them, forecasts are made, and oftentimes filled with dramatic exaggerations. Then, when exaggeration reaches a peak, another group comes along and says, "This is all bosh! Nothing much is going to change." So the result is that you get a distortion both ways—and are right back where you were in the beginning.

Of course, the fact is that change is always with us. But it comes so gradually that many of us do not even know it is happening. To see the scope and extent of the change, you have to stop in the course of your day's work, look back, and contrast conditions as they were a long time ago with what they are today. And so, in discussing advertising, I am going to look back before I look ahead.

It is an oversimplification but in a general way it is true that you can divide national advertising into four eras, so to speak. In the earliest days, the most important thing was the fact that you did advertise, because most of your competitors did not. In effect, you had competition between the advertised brand and the non-advertised brand. Of course, there were exceptions, but that was the general pattern.

"DOMINATING" COMPETITORS

Then, when those early advertisers began to be successful and it was rumored around that they were successful, they accumulated competition. But because the business was new, the technique had not developed. There were no highly trained creative or research staffs, and the competition took the form of competition in space and frequency. In other words, in the second era of advertising (and, that is about when I went into the field, in 1916), the reliable way to outstrip the other fellow was to use more and bigger space than he did—to "dominate" him, as the phrase was then. After a while, however, it became no novelty to use full pages or double spreads or color.

Advertising was then forced into a third era, and skill took on much greater emphasis. The question became: What should be put into this dominating space, which is no longer dominating?

EMPHASIS ON SKILL

I remember my first days in the business. My boss used to say that a copy-

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THE AUTHOR Raymond Rubicam, chairman of the board of Young & Rubicam, Inc., was born in Brooklyn, and educated in the public schools. His first job was as a clerk and later he worked as a salesman in Denver, and as a clerk, salesman, and newspaper reporter in Philadelphia.

Mr. Rubicam entered advertising in 1916 as a writer for F. Wallis Armstrong Company in Philadelphia and went with N. W. Ayer & Son three years later. In 1923 he was co-founder of the firm of Young & Rubicam, Inc., serving successively as vice president and president and as chairman of the board since 1923. He has also been chairman of the board of Tide Publishing Company, Inc., since 1931, and chairman of the Board of the Audience Research Institute, Inc., since 1939.

Mr. Rubicam originated the phrase "Instrument of the Immortals" for Steinway Pianos, and "Priceless Ingredient" for Squibb. He is the author of numerous articles and addresses on advertising and public relations, and of *Johnny Russell—In Memoriam.* He collaborated with Dr. George H. Gallup in the early advertising use of research into public reading and radio listening habits.

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writer was a necessary evil, but an art director (he had none, although his business was large) was just a luxury. But he was already beginning to be out of date. A great stepping up of writing skill and art skill, then, was the next step in the evolution of advertising; and, of course, that skill had to include at least an instinctive understanding of what people in the mass liked, what they would read or would not read—what they would react to favorably.

"MOTHER-IN-LAW" RESEARCH

The fourth era brought in research, and that is the one in which we are today. In the early days the copywriter and the art man went pretty much according to their own tastes and hunches, plus what they learned from their wives in the course of domestic life, and what those wives in turn learned from their mothers—which was in those days laughingly known as "mother-in-law" research. You asked your wife and she asked her mother. Obviously, that system could not stand long, for with the growth of research everywhere, it had to find its way into the advertising business. It is there now, and still growing.

Let us take a look at those earlier days from a different angle. When I went into the business, a pretty good national campaign consisted of a full-page schedule in the *Saturday Evening Post* and a two-column schedule in the *Literary Digest,* plussed by high-spot newspaper campaign. (If it was a woman's product, substitute the *Ladies Home Journal* and *Good Housekeeping* for the other magazines.) That often led to national leadership, but it did not cost much, and it called for very little variety of skill on the part of the agency. Most of the advertisements looked painfully like advertisements; agency men were battling clients to keep pictures of the factory out. Most advertisements had borders on them; most were in black and white.

Such a thing as an agency field staff for research was unknown. Agencies depended on publications, or used no research at all. Radio, of course, was nonexistent. In the typical sizable agency there was a man who handled the account, a man who wrote copy, a space-buyer, and *sometimes* an art director.

THE MODERN AGENCY

Let us take the sizable agency of today. It may have merchandising executives as well as general account executives. In a first-class agency, these merchandising executives are men trained as sales managers in manufacturing companies and come to the advertising business with a knowledge of merchandising and marketing. Frequently they know little about advertising, but they advise on matters of product, price, distribution, selling methods, and other business policies. They often play a very small part in the direct advertising job. But they are there, and they are highly important.

Then as a merchandising or marketing man may have little or no knowledge of how to gather information scientifically, there is often a separate research staff, supplemented by large field organizations, running into hundreds of local investigators scattered throughout the country. Those local investigators are, in turn, broken down into two groups: those trained to make trade studies and

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those trained to make consumer studies. Sometimes there are special divisions to deal with women's products.

Further, you have not only a market research staff but also a readership and radio-listening research staff. This work calls for different training and is handled by different people. Their job is to go out and study what people like and do not like; what they will read and will not read; what they will listen to and what they will not listen to, in the country at large.

In the modern advertising agency, you must have a large radio department, its size depending on the proportion of radio to other media. A first-class radio department will have a division which will do nothing but scout for new talent and develop new show ideas. It will have a regular production division to put on and stage the shows—men trained in radio or coming from the stage or from musical or allied fields. Then there will be a special staff of radio commercial writers who write the commercials and are distinct from the publication writers, because writing for the spoken word is a different art from writing to be read.

In addition to that, there will be a station relations division to buy the time and handle all the negotiations with the stations, and that will be in addition to and apart from the publication space-buying department. There will also be a program promotion and publicity division, and a special staff concerned with daytime radio only.

Other departments which did not exist back in my first days are the public relations and publicity department, and such minor facilities as experimental kitchens and large reference libraries, which call for a considerable number of people. A motion picture production department is likely to be a part of a leading modern agency also, and a new product development department is often included because of the importance of new products for the postwar period, the use of new materials, and the revival of the expansion attitude which has occurred in many businesses.

Finally, the modern agency needs full-time lawyers and tax experts. In our organization, for instance, we have one lawyer who does nothing but read advertising for possible violations, and another who works exclusively on contracts and taxes connected with radio artists. One company officer spends all his time on tax problems.

Creatively the work of an advertising agency has been rather extensively revolutionized in the last 25 years. Once all we had to know was how to produce a rather standardized type of advertisement, obviously commercial in character, and more often than not surrounded by a type border. Today the effective use of newspapers alone calls for considerable versatility of skill—what with comic strip advertising and picture page technique in common use along with older methods.

In all media, advertising borrows more extensively today from editorial treatment than it used to; and with magazines more diversified as well as more numerous, the copy men and art men must be masters of changes of pace once unthought of.

This is to say nothing of the introduction of radio and motion pictures as

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mediums to be mastered. Radio itself breaks down into two rather distinct parts, evening and daytime. Unreasonable as it may seem, it is not uncommon for an agency to be good at evening radio and poor at daytime, or vice versa.

In brief, the first-class advertising organization of today must be equipped to use a considerable variety of media and a considerable variety of technical methods within those media, and able to shift about among them without loss of effectiveness.

However, just as the world at large today contains both the primitive and the highly civilized (some countries being as backward as they were 300 years ago), you find advertising organizations and advertising practices which have not changed. The advertising world exists partly new and partly old. That is true at all times in all things, because change is evolutionary.

RESEARCH TODAY

The newest over-all factor that I shall discuss is research, because it colors everything. It is a tremendous asset, but it also carries with it a great danger, the danger of thinking that good research and adequate factual material are all you need for a great advertising campaign. That is the No. 1 fallacy; and, I may say, it is apt to be the fallacy of the so-called practical man. Why? Because he is usually a factually-minded man. He does not understand the creative arts so well as he understands facts and figures; he is not so much interested in them, and they are harder to explain to him. He often makes the mistake of thinking that if you take two and two and put them together, the job is done, and you have a great advertising campaign. A real threat to superlative advertising in individual instances is the under-rating of the creative aspects of the job.

There is another point about research that is important to remember. I cannot speak with any knowledge about research in the physical sciences, but let me take a chance on this comparison: When you are experimenting with physical elements and you have a finding, presumably, with some elements at least, that finding remains constant. If a thing is true once, it is true forever. That is not the case with advertising research, however. A technique, a medium, a method may be supremely effective while it is fresh; but after it has become common, a research check is likely to bring up an entirely different finding. So you must be on the move all the time in this business, the essence of which is individuality and freshness. Agency and client must be equipped to use all the media and to shift about among them. A modern advertising agency is not complete if the client, in order to shift his medium or shift his strategy, has to shift his agency.

Freshness and originality are sometimes obtained by traveling in circles rather than in a straight line. In other words, if you go back to the old thing, you may have a new thing. Because it has been abandoned by the many, it becomes fresh for some rediscoverer.

WAR ADVERTISING

The war, of course, has brought a special set of circumstances, a special set of demands, and the people who can best appraise war advertising are those in the War Advertising Council. Since they come from advertising, they are, of

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ourse, friendly to industry and advertising. At the same time they are in close ɔuch with the government and with the needs of the war. Thus they occupy a ery good judicial position on such a point as this. I am sure that most of what am going to tell you, you already know and have heard before; but let us sum t up because reiteration and perspective may be helpful.

What the War Advertising Council says is that some war advertising is ood and some is terrible (to use the Council's own word), and more of it is errible than is good.

In the early stages of the war, the Council says, it was probably helpful to ut loose with a deluge of advertising telling how good industry was, and what ndustry was doing. That had a special usefulness because our army was train-ng, let us say, with broomsticks, at least figuratively speaking. Our war effort tself was in the future, and some artificial stimulation had to be given to our norale. Advertising which told in glowing terms what industry was doing robably helped provide that stimulation. It kept up our hopes and made us ook ahead.

The Council says, however, that today that kind of advertising is positively lamaging, especially if it gives the impression that the tank wins the battle vithout the soldier in it—that the airplane wins the battle without the pilot and he gunner—that this whole war is being won by machines and by American ndustry and labor—and by omission, almost reduces the fighting man to a non-combatant. Boastful advertising about the accomplishments of industry, says he Council, is now harmful and uncalled-for. The accomplishments speak for hemselves, and there are other, more useful, jobs which advertising can do.

One valuable thing advertisers can do, it believes, is to get together with ɔther companies in the same industry and appropriate a portion of the advertising noney for a campaign on a war theme. In the drug industry, for instance, each firm contributed 5 per cent of its appropriation to a fund which paid, first, for war bond advertising. Then, having consulted the government and the War Advertising Council, and in the light of the great need for more women not only in industry but in the armed forces, this group of industrialists has decided to put its money into advertising the need for womanpower.

Somewhat similarly, the steel industry and the soap industry have also appropriated money for campaigns for government themes. In those cases a theme allied with the companies' own business—salvage—was chosen, and the fact that this advertising was of direct value to the industries which ran the campaigns did not detract from its war value. However, some volunteer advertisers are needed to take themes not related to their own industries, because there are some themes which are not closely related to any industries, yet nevertheless must be publicized.

Another type of useful effort, in the opinion of the War Advertising Council and the government, is to build your own company advertising around an approved war theme. The American Telephone and Telegraph Company, the railroad companies, and Cluett, Peabody & Company, for example, have forcefully promoted conservation and economy in the use of facilities and materials.

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In a third type of campaign an advertiser takes a theme and gives it part of his space. For instance, Hiram Walker has supported the OPA program by devoting the first part of its advertisements to the rationing theme in general, and then tying the subject up with its product by emphasizing its efforts to distribute its own products fairly and live up to the spirit of the OPA regulations.

The War Advertising Council tells me that definite evidence is beginning to appear that war advertising of the kinds I have mentioned is more effective as public relations advertising than the kind which confines itself to talking about the advertiser's own war work.

If any of you have questions about how you can do more to aid the war through advertising, or if you want an opinion of what you are doing now, I suggest that you talk the matter over with the War Advertising Council.

INSTITUTIONAL ADVERTISING

War advertising, which is public relations advertising, leads logically to a discussion of both public relations advertising and institutional advertising after the war. Just as there is overlapping and confusion between public relations and publicity, so there is overlapping between public relations advertising and institutional advertising. They are often the same, but they can be so different as to be in direct opposition to each other. For example, too much institutional advertising, or institutional advertising at the wrong time, can be bad public relations advertising.

We have had a great wave of institutional advertising, and people are asking what is going to happen to it after the war. I for one expect that there will be a very high mortality in the field. Institutional advertising, can, however, continue its present usefulness in the reconversion period. It will still be essential then to many manufacturers who have nothing, or not enough, to sell, but who must keep their names alive. It can do especially useful jobs for industrial advertisers in helping their industrial customers to reconvert.

PUBLIC RELATIONS

Now, of course, all advertising is, in a sense, public relations advertising, without exception. For instance, flamboyant product advertising which engages in extravagant claims is bad public relations advertising for its sponsor, whether he faces the fact or not.

In my opinion, the amount of special public relations and institutional advertising which is done after the war will be somewhat governed by politics in Washington. If there is an unfavorable climate, as they like to say these days, you may still have considerable public relations and institutional advertising. If, however, business is given encouragement and understanding and is permitted to go ahead, I think there will be little of it. However, in the latter case, there may be a wave of public relations advertising by labor unions. This has already shown itself here and there; and if the unions see public sentiment going against them, what is more likely than that they will use advertising to try to turn public sentiment around? If they do use advertising, they will probably use it well.

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In the first place, they have a basically sympathetic theme—the welfare of the working man. Furthermore, they are skillful people, and particularly skillful as salesmen of their cause.

Of course, good public relations for both sides must begin with deeds, not words. To quote Emerson, "What you are speaks so loudly that I cannot hear what you say." That is the most important single idea to remember in public relations, both for business and for labor.

When you go to Washington to take a government job, as a neophyte, they will tell you that government *is* public relations. And I tell you that today business also *is* public relations. Public relations awareness and public relations sense and public relations concern should exist in every important company today and should exist at the top. Fortunate is the company whose president or chairman is a naturally good public relations man. A company which does not have that kind of leadership should acquire it by adding a strong public relations man to its top officer roll. The practice of doing so is spreading. Very often, however, these men are not directors of the company and have no real influence on company actions. They are sometimes made vice presidents—but they are seldom permitted to be part of the policy-thinking of the company. So I say that there should be a public relations man who sits on the inside, and who has an opportunity to give his view of everything that is done, *before* it is done.

FUNCTIONS OF THE AGENCY

Now, then, how much help do such companies need from the outside? Where does the public relations agency, and the advertising agency with a public relations department, come into the picture?

I do not believe that a company should use outsiders as its official public relations representatives in its important contacts. A business should represent itself in its public relations affairs. Not to do so is an admission of inability and inadequacy in an activity which is today an inseparable part of big business management. It has been all too common in the past to hire an outside "expert" in the role of ambassador. This is a practice suggesting artificiality and likely to arouse suspicion even if none is deserved.

The outsider can be most useful in the same way that an outside agency is most useful in advertising—working with a skilled and important officer of the company. In that way, an outside public relations or advertising agency can still be highly important in public relations. First, it can contribute knowledge gained from dealing with a great variety of companies and problems. Second, it has, or can have, an adequate research staff to keep in constant touch with public opinion. Third, such agencies have the skill and facilities to express ideas in mass terms.

Whether the advertiser chooses an advertising agency or an independent public relations agency, to my mind, is not important. Whom he chooses *is* important. There is good ability and poor ability on both sides of the fence.

Public relations counselors, whether advertising agencies or not, should be courageous with their clients for the clients' own good. They should not

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specialize in trying to make bad policies look good. They should work deeper than that and try to change the policies. Where no legitimate case is possible, they should say so.

ADVERTISING IN LATIN AMERICA

Let us take another postwar subject that is of great interest nowadays—advertising in foreign countries. There is in agency circles—and therefore there must be in business circles—a wave of planning and activity which largely centers on Latin America; and this in the face of the fact that authorities differ widely on the promise of the market. The optimists think we shall be able to build a substantial market for American goods. The pessimists say we have no chance. Time only will tell.

In our agency we have started a Latin-American division, but I presume you are familiar with the handicaps under which we work regarding market and media information. Some countries do not even have national population statistics. Analytical figures on living habits and standards are almost unknown. Even figures on media come only from the owners of the media, which compares with the days before the A.B.C. in this country.

Our own view is that Latin America holds enough promise to be a good gamble, and that we should make every effort to help our clients develop it. We believe that our first step should be an organized effort to introduce American research methods into our own work there, and to encourage their general adoption wherever they can throw light on the Latin-American picture as a whole. Our first step will be to try to bring our clients better information—better organized, more thorough, and more reliable—than they have had before, through a combination of native talent, Gallup training, and close supervision. In that way we hope to make a contribution not only to our own effectiveness, but to the better understanding of the market.

A great deal of Latin America is illiterate, but radio should make illiteracy less of a market limitation in the future than it has been in the past. It is reasonable to believe that after the war radio sets will be purchasable for two or three dollars, and that in reasonable time they will reach into the hinterlands of every part of the world, greatly closing the present gap between the backward man and his modern brother.

There is one question that must be answered before we can know much about our own foreign trade future, and that is: Are we going to become economic isolationists—whether by design or by default? A knowing man told me last night that he can see economic isolationism growing up in the United States by the hour. It's the same old short-sighted attitude, he says: ambitious plans for selling to the other fellow, but blind unwillingness to buy from him—which can only end in not selling to him either.

GRADE LABELING

Another subject that deserves attention here is grade labeling. By those in touch with the subject, grade labeling is called a sleeping dog, and not a dead dog.

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Grade labeling is not a recent issue. In some measure it has been agitated off and on for the last 30 years. Considering this, it has made surprisingly little progress. I myself do not believe that grade labeling can destroy or seriously menace either brands or brand advertising. It has too many shortcomings which would become obvious in practice. In Canada, where grade labeling has been used for many years, a recent survey showed that less than 25 per cent of the housewives were aware of it at all, and that only 13 per cent of them looked on it as a primary guide to desirability.

At best its usefulness would apply to a limited number of products, and even with those products, it would apply to only a limited number of attributes of the product.

The real dangers of it, to me, are these: (1) It might be used for unwarranted price control and standardization; (2) it would extend bureaucracy by putting government inspectors into thousands of plants. In other words, grade labeling could be (as many people say it is) a tool with which to arrive at something much worse than grade labeling.

CONSUMER MOVEMENT

A subject related to grade labeling is the consumer movement. That, I am told, is not only not a dead dog; it is not even a sleeping dog. It is very much alive now, and active. But it has taken a different and more constructive turn. Whether this is temporary or permanent, again time will tell.

Perhaps the most quotable comments I have seen on the consumer movement are those in an article which appeared in the May 14 issue of *Printers' Ink*, entitled "The Consumer Movement Is Not Dead." Here are some excerpts from it:

> Far from being dead, it [the consumer movement] is on the alert, but the movement has changed its character and objectives. It has passed out of the militant phase. It has turned from the destructive to the constructive. Young people in schools and colleges, adult groups, factory workers, all are becoming better informed consumers every day. They will not need "Guinea Pig" books and rating services to help choose postwar consumer goods, but they will reject wishful thinking advertising copy which plays heavily to the emotions and disregards the changed thought patterns of magazine and newspaper readers.
>
> The trend toward consumer economics as the core of any consumer education program is particularly noteworthy because of its future potentials in a period of economic adjustment. All of the new subject matter crowding into consumer education programs is pushing aside the old controversial stuff which fed the flame of consumer-business arguments.

To say it another way, the consumer movement shows signs at least of becoming less of a battle royal between business on the one hand and consumer educators on the other, and more of an inquiry into the specific things that can be done by business organizations, schools, and consumer groups to give the consumer more information with which to understand, and operate intelligently in, an economy of free choice.

GOVERNMENT REGULATION

What about government regulation generally, as affecting advertising? Government regulation, if it is confined to the prevention of fraudulent adver-

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tising, or if it is aimed to prevent the use of advertising to create monopoly can be decidedly in the interest of our health and welfare. The last 12 years have made us hypersensitive to anything labeled government regulation. Actually, we had it, and grew and prospered with it, for a good many years before the New Deal.

For instance, in 1905 the Pure Food and Drugs Act gave national advertising a great impetus to growth. Before 1905, the drug and food fields were playgrounds for the advertising fraud and cheat. With no rules, and no holds barred, the good and honest merchandiser and advertiser was at the mercy of the crook. It was not a healthy climate for legitimacy. Reputable manufacturers were wary of advertising, lacking in respect both for its methods and its users. While the 1905 Act was fought bitterly by advertisers, its fair and reasonable standards and restraints brought new advertisers into the field and increased public respect for advertising at the same time.

It should not be the business of advertising to sell fraudulent products, or to sell fraudulently. It should not be the business of advertising to perpetuate undeserved successes. Painful as correction is to offenders, it is health insurance for the main body of advertising.

Now, I do not agree that the postwar public will be immune to emotional advertising. That can never be—so long as people have emotions! Why condemn emotional appeals as somehow illegitimate or dishonest, just because they are emotional? That is, in fact, an attack not on advertising, but on human nature, and on the springs of aspiration and action. Advertising that does not make the reader feel as well as think will fail in the nature of things.

Critics sometimes single out advertising for criticism on grounds of bad taste. Could anything be more absurd in the light of what is loosed on us in popular songs, movies, plays, musical shows, and the editorial contents of newspapers and magazines? The advertisers' part is, in fact, the cleanest part of the performance.

Why, then, is advertising attacked so bitterly on this count, whereas bad taste in so many other places is so casually accepted? Here is a guess: Advertising is a direct and obvious instrument of business. The active enemies of advertising are the active enemies of business, and of the whole system of free enterprise.

TELEVISION AND FACSIMILE

And now let me speak of two great revolutionary elements in the postwar picture—television and facsimile. Not only in advertising, but in the whole social fabric of the world, in their influence on the development of individuals everywhere, they will be two of the most important inventions of all time. Here is a recent letter written by John Baird, the Englishman known as the inventor of television:

> Television after the war will be much better than anything we have ever had before. In the first place, we have made such advances that we can now get pictures of at least twice the definition we formerly had.

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But there are two much more sensational improvements that may be available in television after the war—television *in color* and *stereoscopic*, or three-dimensional television.

Color television should develop alongside black-and-white television just as color films have grown in popularity.

There's no reason why we should not have stereoscopic television as soon as we have color television.

In the laboratory I have developed stereoscopic television. That, however, is still too complicated for commercial application. Eventually we shall have receiving sets in which we shall see full stereoscopic pictures in color.

Then we shall have large press-button sets with a screen about two foot square. We shall be able, with a set like that, to press one button for ordinary black-and-white television, one button for color and stereoscopic, one for automatic record-changing radiogram, one for all-wave radio, and one to switch the whole thing off!

Eventually, television will revolutionize the renting and exhibiting side of the cinema industry.

Soon after the war every cinema will have its television receiving set.

But the really big influence of television on the cinema will be in the actual television of all the big films to hundreds of cinemas from central transmitting studios.

This will substitute eventually the present costly system of running off scores of copies of a film and rushing them all round the country in tin boxes.

Films will be thrown on the screen by television then, and not by direct projection. Let me make it clear that this is a long-term prophecy.

Sooner or later I think telephone-television is bound to come, just as some day, by powerful relays, we shall get national, and even international, television.

Mr. Baird, in another recent statement, said that as far as England is concerned at any rate, television will be in practically every home within five years.

The main questions about television in advertising are how rapidly it will develop as a mass medium, and what effect it will have on other mass mediums. It has unique advantages too obvious to mention, especially if it develops color and three dimensions, as Mr. Baird predicts.

Its most outstanding and dramatic advantage will be in connection with retail advertising. Postwar shopping, with goods seen at home by television and bought by telephone, is certain to come in time. I read in a London paper something I did not happen to see printed over here, that one American department store is already wired for television so that goods and departments throughout can be shown to the customer sitting at home.

One of the early arguments against radio as an advertising medium was that the listener had to adapt himself to the broadcasters' time—if he wasn't at the set at the right moment, he didn't get the message. True, the newspaper and the magazine offer the advantage of longer life and greater flexibility in this respect, which is part of the reason they continue to produce for us. An extension of the argument once used against radio is now used against television. Unlike radio, the critics say, television claims the complete attention and, therefore, must have a more limited use in the life of a busy person. The partial answer to that lies in a process called facsimile.

Now, facsimile, as some of you know, is the broadcasting by radio of images which will be reproduced on paper. Before the war a number of newspapers were experimentally broadcasting complete newspapers between 2 a.m. and 5 a.m. to homes in their cities. Newspapers were being printed on paper in those homes while the family slept. The experiments ended when the war came, because the War Department needed that broadcasting time from 2 a.m. to 5 a.m., and the sets were needed for other uses. Stop and think of the possibilities of those

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experiments and of the revolution they can bring in the fields of broadcasting and of printed literature of all kinds.

Television threatens radio with the headache of divided advertising income —the headache from which the newspapers first suffered when magazines grew popular, and from which both newspapers and magazines suffered when radio came in.

After the war, with AM radio, FM radio, and television radio, the problems of split audience will be aggravated, with consequent effects on costs and effectiveness. Gradually all the old sets will be replaced, however, by new sets which will receive all three—AM, FM, and television. Confusion will iron out, and circulation values build up again.

THE OLDER MEDIA

What will television do to the older media? I don't know, but here are some figures that show the rise (not the fall) of newspaper and magazine circulations since radio came in:

In 1924, which was before radio got going, magazine circulation in the United States was 48,000,000. It was 112,000,000 in 1942. That is a circulation increase of over 100 per cent. Daily newspaper circulation in 1922 was 49,000,000. It is now 77,000,000. That is an increase of 60 per cent.

Just by way of additional evidence that the great popularity of radio has not monopolized people, I can tell you that movie audiences have increased from 40,000,000 in 1924 to 90,000,000 in 1942. Also, some 250,000,000 books were sold in the United States in 1943, the largest total in history.

While newspaper circulations were increasing 60 per cent and magazines over 100 per cent in the face of radio, the population increased only 20 per cent.

Early in this paper I described a media campaign in the simple days of 1916—a campaign with a good chance to win a national market. Admittedly a campaign of similar effectiveness would cost much more today. But let's look at the size of the dollar market you shot at then, and the one you shoot at now. In 1916, the year before we entered the last world war, the national income was $40,000,000,000. In 1941, the year before we entered this war, it was nearly $100,000,000,000. You had more media, advertising costs were more, you had to use more ways to be sure of reaching the mass of your market, but you were shooting at a mark about two and a half times as big. The postwar job of industry and advertising is to help build national income to new peacetime heights.

IMPORTANCE OF RESEARCH

Two more thoughts in closing. The advertising man is beginning to know that his best friend is sound research—research about products and markets, and, above all, about people. Research is his friend because it gives substance and direction to his use of the creative arts, and it is his best friend because it can guide him to a sounder future of social usefulness, of constructive contribution to people's lives, than he can hope for by any other route. It is important for the

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advertising man to realize that he has only scratched the surface of its possibilities, and to keep pioneering for more accurate and more penetrating methods. It is also important, if research is to help the advertising man toward wider recognition of his contribution to society, that he use it not merely to persuade the public to buy what is offered but equally to persuade industry to offer what is needed.

The second thought I wish to emphasize in closing is that research alone does not make great advertising. Advertising is and will remain an art, no matter how much research may increase its usefulness and reduce its hazards. Give five different men or groups the same set of facts, and they will come back with five campaigns that will vary in effectiveness as much as the efforts of five salesmen equipped with the same sales manual, or five playwrights writing on the same theme. The best advertisement in a magazine is something like five times as effective as the average advertisement and 14 times as effective as the poorest. Many factors play a part in this difference. One of them is how much you know about your product, your market, your consumer, and his attitude toward your product. But another factor, and often the deciding one, is the imagination and understanding of the individual or individuals who transformed the raw material of fact into an instrument of persuasion. That will be true after the war as it was before the war. It will remain true, no matter what other changes face us.

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Transition and Postwar Pricing

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THE SALES MANAGER GIRDS FOR HIS JOB

By DON G. MITCHELL
Vice President in Charge of Sales
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and
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American Management Association

MY assignment here is to discuss briefly the kind of world that is likely to face us, as sales executives, when the lights of peace go on again, and to consider the things we can do to meet and lick the marketing and distribution problems that will most assuredly confront us at that time.

A year ago many of us concerned with postwar marketing problems hoped—even though we didn't dare to plan—that at least the European phase of this global war would end during the year 1944. Some of the world's great political leaders did more than hope—they believed it would be over in 1944—and at least one of them was reported in the press as stating that as a probable fact.

Well, it didn't end in 1944; and until it does end, our first thoughts and all our energy and strength must be devoted to giving our boys the things they need to win it, regardless of how tightly we have to pull our belts on the civilian fronts to do so. It would not surprise me if 1945 turned out to be the first year in which many of us were called upon to make some real personal sacrifices in the civilian economy. The Lord knows, most of us have had to do without very few vital material needs up to now.

But at least we can *and must* think and plan for the day when the war *will* end. Let's take a frank look at the present and at the probable postwar world from a marketing man's viewpoint.

MARKETING CONDITIONS NOW

There is hardly a factory in this country that isn't making more goods and more money than it ever made in its life. This is true in spite of the grousing about how big taxes are, about how much is taken away in renegotiation, about how tough the manpower situation is, and about how hard materials are to get.

THE AUTHOR Don. G. Mitchell's first selling experience was with the McGraw-Hill Publishing Company. His work there attracted the attention of Floyd Carlisle, chairman of the board of the Niagara Hudson Power Company, who offered him the post of director of industrial development.

In 1933, Mr. Mitchell developed the paper milk container for the American Can Company, and put it on the market, and later was in charge of the introduction of the tin can for beer. He became vice president in charge of sales for the Pepsi-Cola Company in 1939, his name being closely identified with the company's remarkable growth in sales.

In his present position with Sylvania, his work has to do with developments in the fields of lighting and electronics.

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There is hardly a hotel or restaurant that isn't making more money than it ever did before, in spite of the shortage of food and liquor, the lack of help, and the inability to get enough red points for meat and butter.

There is hardly a consulting engineer who hasn't more jobs on his books than he ever had in his life before, and who isn't charging fatter fees than ever because he knows he can use the argument, "What do you care? You're in the 90 per cent bracket—it only costs you 10 cents on the dollar."

Do you think that the transition from that sort of world to one in which a prospective buyer can weigh what you offer against what a dozen competitors offer—competitors who are also hungry for his business—is going to be easy?

Are you so blinded by the statistics that are glibly quoted about how many billion dollars of pent-up savings are burning holes in the pockets of the populace that you think you will have no serious selling problem for several years after the war?

Are you operating under the illusion that your greatest problem, postwar, will be to convince OPA that you ought to be allowed to raise your price 25 per cent so that you can continue to make the kind of profits that the war has spoiled you into expecting?

If you are, then I strongly recommend that you climb out from behind those rose-colored glasses and look a few facts in the face.

Let's use as an example the home radio set industry, with which I am partly familiar:

THE HOME RADIO FIELD

Home radios are one of the items for which there is supposed to be a terrific pent-up demand. None has been manufactured since April, 1942.

The largest number of sets sold in any one year was 13,000,000 odd in 1941, and this figure is probably misleading because it resulted from a forcing situation when the industry knew it was going to have to quit making them.

Statistics compiled by various sources indicate that there is a probable "pent-up demand" for home radios of from 20,000,000 to 25,000,000 sets.

This on the surface looks like some "easy pickin's" for radio set manufacturers for at least a couple of years after the war, doesn't it? Before we judge, however, let's look at a couple of more facts.

Before the war there were approximately 50 set licensees of R. C. A. (under the present patent situation in the radio set industry, it is, for all practical purposes, impossible to manufacture a home radio set without having an R. C. A. license). During the war that number has grown, because of war radio work, to nearly 150.

Most of these newcomers, or at least a large number of them, have expressed their intention of having a try at the home radio field.

In addition to this, war work in radio and radar has increased the size of the old-line radio set companies like Philco, Zenith, R. C. A., Colonial, etc., so enormously that any one of them could probably manufacture (if it maintained its war-expanded size) from five to ten times as many radio sets as it ever made in one year before the war.

This additional set of facts makes that so-called "pent-up demand" figure of 20,000,000 to 25,000,000 radio sets look pretty small when measured against

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capacity to produce, doesn't it? Yet hardly a single one of the companies I have mentioned expects to shrink back to its prewar size.

Do you think now that selling will be required in the home radio set field postwar? I can assure you that it will. Selling with a capital S.

OTHER FIELDS

Most other fields, if thoroughly and realistically analyzed, would, I imagine, stock up not much differently.

Even the automobile business, which seems to me to have the best chance of keeping busy for several years after the war, is in very much the same shape.

Only last month, William Holler—that great sales manager of Chevrolet—told me that his organization realizes that the only way Chevrolet can retain its leadership postwar is to get in there and *make sales,* the *hard way—millions of them, one at a time.* He doesn't expect orders to come drifting in over the transom, even if there is a "pent-up demand" for 9,000,000 or more automobiles.

And let me emphasize: If they won't drift in over the transom to Bill Holler's sales organization, they aren't going to drift in over the transom to *yours.*

WHAT TO EXPECT IN PRICES

Now, a word or two about what to expect in the matter of prices.

One great American business man was quoted in the papers a short time ago as estimating that his postwar product would be priced about 25 per cent higher than his same product prewar. It was indicated that his reason for this was that his costs were 25 per cent higher—therefore, to keep his profit margin the same, percentagewise, his selling price would have to be 25 per cent higher.

Of course, I don't think this gentleman really believed it when he said it. It sounded to me very much like a "trial balloon" to see what the reaction would be.

Well, if that was what he was looking for, he got it. One of his large competitors was reported by the press, a short time afterwards, as saying that *his* postwar product would be priced *lower* than his similar prewar product.

Incidentally, since then I haven't seen any more remarks by the first gentleman about his 25 per cent increase in price.

In other words, prices are something that result from the operation of the old law of supply and demand in a free, competitive economy. And in spite of their incessant tinkering with it, all of the pseudo and quasi-economists that have haunted the Washington scene for the past 12 years have been unable either to repeal that law or to suspend its operation.

Carter Field, in his recent biography of Bernard Baruch, says it very well in words which he attributes to George B. Newcomb, professor of political economy at City College around the turn of the century:

> When prices go up, two processes will set in—increased production and decreased consumption. The effect will be a gradual fall in prices. If prices fall too low, two processes will set in: (1) decreased production, because a man will not continue to produce at a loss; and (2) increased consumption. These two forces will tend to establish the normal balance.

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I believe Chester Bowles agrees with this and will attempt to guide OPA's pricing policies along these lines. In a recent article in the *Saturday Evening Post,* he stated that although OPA might listen to the plea of a whole industry if it were proved that the whole industry was selling a certain product at a loss because of a too low price ceiling, it could not guarantee a profit to any single manufacturer within an industry.

That is sound thinking. No red-blooded American worth his salt wants to see the public stuck with prices high enough to guarantee a profit to the least efficient producer, any more than he wants to see individual initiative stifled by laws which tend to preclude a man's receiving a reward somewhat commensurate with the risk he takes or the ability he possesses.

I am reasonably sure that the prices of postwar products will in the long run be determined by competition—not by the OPA, and that before many years have passed the inefficient producer may be running to the OPA, if it is then still in existence, squealing for a cellar to be put under prices rather than a ceiling to be put over them.

AN ECONOMY OF ABUNDANCE

To employ the millions of people that must be employed after the war, the wheels of industry must be kept turning at an accelerated rate. To keep the wheels of industry turning at an accelerated rate, you will have to *sell, sell, sell,* as you never have before.

And in order for your sales efforts to be crowned with success, values to the consumer must be relatively high—and prices relatively low.

Killing every fourth pig, or plowing under every third row of cotton, or shutting down every second machine in a factory, all have the same eventual result—feeding every fourth, or every third, or every second man, woman, and child at government expense. That is the price of an economy of scarcity.

The selling profession of this country cannot condone that kind of thinking. Our very lifeblood is tied up with an economy of abundance.

We have proved that we can produce enough goods in this country to give us all a standard of living far above anything we have ever known. We must now prove that we can market that quantity of goods. How can we do it? Fortunately, there is an answer. There is a never-miss formula. It is so obvious—besides being for free—that almost nobody realizes just how good it is. It is so unspectacular that most marketing men are inclined to sniff with great superiority when they hear it mentioned.

It is what you and I have come to call "know-how."

Old stuff it is, prosaic stuff, tiresome stuff, but it is the real McCoy—and it always works.

Know-how is *knowledge* plus *skill.*

Knowledge alone can equip you to cope adequately with the immense demands that the new competition and a progressively more complex world will impose on you. Knowledge of methods, of techniques, of trends, and of ideas.

Skill, which comes with successfully putting this knowledge into practice—skill, acquired only with experience but assisted mightily by watching and listening to others who have been proved to have it; skill which all of us

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will need to an ever-increasing degree—will, when added to knowledge, allow us to attain this tremendous goal.

* * * * * *

Question: Which is better—sales control through regional or district managers or direct control of field men by headquarters?

Mr. Mitchell: Personally, I am a firm believer in controlling sales and all other operations that pertain to sales through the regional or district manager whenever you can. (This answer is for a company big enough to swing a large sales organization—a firm with perhaps five, six, or ten factories in which different products are made, although not the same products in all.) If a customer is located in Kenosha, Wis., and the company has a sales office in Chicago which includes Kenosha, I believe that customer should have only one address in mind for the company, the Chicago sales office. If he wants to make an inquiry, it should be made to the Chicago sales office. If he wants to pay a bill, it should be paid to the Chicago sales office. If he wants to ask, "Where is that shipment we ordered last week?" he ought to ask the Chicago sales office. Why? Because that is the way to build up your district manager in Chicago, and you will never have a sales organization bigger than the individuals in it. If you hold the man responsible for the business in his area, then you should encourage him to know all there is to know about that business. Saddle him with the responsibility and give him the authority to function under it.

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THE FIRST TEN YEARS AFTER THE WAR

By CHARLES F. ROOS
President
The Econometric Institute, Inc.
New York, N. Y.

AT THE present time when victory is in sight and important decisions regarding short- and long-term business policies must be made, it seems desirable to discuss the prospects at some length. The problem of economic forecasting is not an easy one and, therefore, close attention is required.

The chart on the next page shows production of non-durable consumers' goods (perishables, such as foods and petroleum products, and semi-durables, such as textiles, shoes, clothing), durable consumers' goods (appliances, furniture, house furnishings, automobiles, housing), capital goods (manufacturing and transportation equipment and machine accessories), and other goods (minerals, fuel, and chemicals) included in the Federal Reserve Board index of industrial production. The top line thus is the FRB index of production. Ships and aircraft are shown separately since 1940.

PERISHABLE GOODS PRODUCTION

Perishable goods production, a portion of the FRB index of production defined as manufactured foods products, beverages, tobacco, and products made from petroleum and coal—principally gasoline—represents a relatively stable part of total production. The volume of production of these goods changes only slowly from year to year, and the long-term changes are the result chiefly of changes in population. Cyclical changes do occur, but the amplitude of such fluctuations is very small compared to the amplitude of the cyclical fluctuation in the FRB index of production. The table below shows that during years of peak peacetime industrial production, the years

THE AUTHOR Dr. Charles F. Roos is one of the country's most distinguished statisticians and economists. He received his B.A., M.A., and Ph.D. at Rice Institute in Houston, Tex., and studied also at the Universities of Chicago and Princeton. For some years, he taught mathematics at Rice Institute and Cornell, and in 1926-28 was National Research Council Fellow in mathematics. He later held fellowships in economics awarded by both the Social Science Research Council and the Guggenheim Memorial Foundation.

Dr. Roos was principal economist and director of research for NRA in 1933-34. Thereafter he was director of research for the Cowles Commission for Research in Economics and professor of econometrics at Colorado College. He is the author of *Dynamic Economics* and *NRA Economic Planning* and also of numerous articles and papers on mathematical concepts of economics.

Founded for the purpose of developing and coordinating economic studies which would give information with respect to early indicators of changes in business trends, the Econometric Institute has developed several new order series, and worked out their relation to consumption, production, capacity, and monetary factors. These indicate the business levels and interest rates that should prevail, and whether commodity prices are too high or too low, and what their trends should be.

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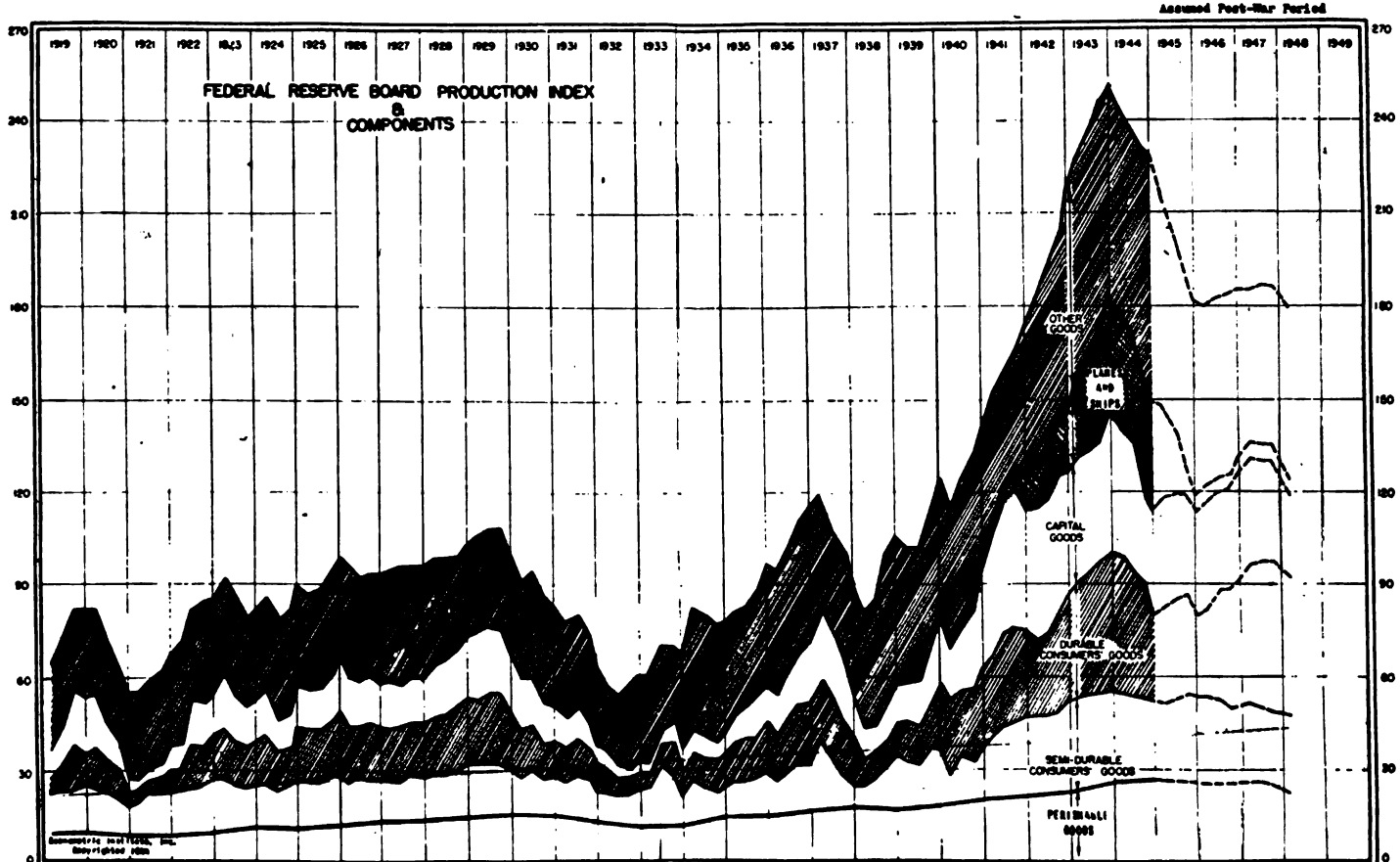

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of 1919, 1929, 1937, and 1941, the production of perishable goods represented only about 13 per cent of the FRB index of production, whereas in years of depression the proportion rises to nearly 20 per cent.

	1919	1921	1929	1932	1937	1938	1941	1944
Production of perishable goods..	9	8	14	11	17	16	20	26
FRB index of production.....	72	58	110	58	113	89	162	235
% perishable goods.....	13	14	13	19	15	18	12	11

As income increases, people are perhaps a little more wasteful of food products and, in addition, consume more gasoline and other petroleum products because they move about more. From an economic or business point of view, the tendency to consume more processed food as income increases and less as it decreases is perhaps more significant. For instance, as income rises, processed cereals, etc., replace bread, potatoes, and similar goods which go to make up the major portion of the diet of the lower income groups.

Increase in population during the war period and the likelihood of further increase after the war ends seem to guarantee that the perishable goods portion of the FRB index of production will represent at least 16 points of the total index in each of the years 1945 to 1950, even if deep depression should develop. The huge volume of war savings, our system of unemployment insurance, and soldier bonuses suggest that likely levels will be three to six points higher.

SEMI-DURABLE CONSUMERS' GOODS

Semi-durable consumers' goods production—production of shoes and leather products, cotton, wool, rayon and silk textiles, clothing, stationery, and similar products—likewise depends in considerable degree upon population. Here, however, national income or purchasing power plays a more important role. As a general rule, one can say that the longer the life of a product and the higher its price, the greater is its response to changes in income. For instance, the number of cheap handkerchiefs or men's socks consumed (purchased) shows very little response to changes in income, whereas the number of women's and misses' $25 to $35 dresses shows considerable response.

It is the sensitiveness of demand for semi-durable consumers' goods that is the root cause of inventory cycles, because the average merchant is very inept in anticipating changes in income and their effects upon demand. For instance, the average merchant in the early part of 1936 completely missed the significance of the effect that the impending soldier bonus would have on the demand for semi-durable consumers' goods; he continued for several months to place orders at a pace below that of a rising demand and so approached the fall months with inadequate stocks of goods. Later efforts to correct this error raised the levels of orders of manufacturers of semi-durable consumers' goods sufficiently to bring about capacity production. These manufacturers, in turn, were misled by this sudden influx of new business and embarked upon programs of excessive plant expansion. By December of 1936, the whole economy was geared up to the increased demands of the merchants, and financial writers had brought out the inflation goblins. By March, 1937, the average merchant realized that he was over-extended and began to reduce his commitments to manufacturers, who, in turn, realized that

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they had erred in expanding plant. A short time later commodity prices began to decline and by late summer production, employment, payrolls, and other generally available indexes began to decline precipitately. Similar sequences in new orders, production, prices, and employment are likely to occur in the second and third postwar years.

The chart shows, however, that production of semi-durable consumers' goods has fluctuated less than we have just indicated. The reason is that manufacturers have learned to expect speculation and are prepared to fill temporarily higher new orders out of stock. Therefore production of semi-durable consumers' goods fluctuates only moderately about a trend indicated by population.

DURABLE CONSUMERS' GOODS

Even a cursory examination of the chart shows that the variable elements of production up to 1940 were principally durable consumers' goods and capital goods. The production of non-durable consumers' goods has been relatively steady, but has shown a long-term upward trend. Prewar production exceeded this trend in 1919, 1929, and 1937; and each time subsequently dropped below. At the present time the civilian portion of non-durable goods production is about 90 per cent of the trend value, but total production of non-durable goods greatly exceeds the trend because of high military demands accompanying high civilian demands.

OTHER GOODS

Other goods production changed very little from depression to prosperity until 1940, when it became grossly distorted by production of minerals, synthetic rubber, and other chemicals for wartime purposes. The interesting point is that other goods production in 1932 was almost as large as in 1929. Other goods production has also shown a long-term upward trend, which is principally a growth in chemicals, printing and fuel.

We thus find three important long-term upward trends: (1) in production of perishable goods; (2) in production of non-durable consumers' goods; and (3) in production of other goods. All these trends are in part reflections of population increase and in part of increased living standards. Cycles in production of durable consumers' goods and capital goods appear to be superimposed on these trends.

POPULATION

Population is a major factor in economic activity, being the basis both for the demand for goods and services and for the labor supply. In our forecasts, population figures with forecasts through 1960 made by the National Resources Committee on the basis of medium fertility were used. These projections of the Committee indicate a flattening out of population growth. Thus, an addition of only 11,700,000 population during the 1940-50 decade and 9,100,000 during the 1950-60 decade is expected, whereas 16,600,000 persons were added between 1910-20. We believe that increases in income attributable to the war effort make the Committee's forecasts based on medium fertility conservative.

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PER CAPITA PRODUCTION

On a per capita basis industrial production as measured by the FRB index or any other comprehensive index has tended to increase over the years.

Three trends of per capita production were examined. The first was maintained from 1919 to 1929, a period of 11 years covering two minor business recessions and one large one. This rate could presumably be maintained for a long time if major structural breakdowns like that of 1929-36 can be avoided. The second trend passes through the points for 1920 and 1940. It thus includes the effect of the depression of the '30's and gives a rate of expansion low enough to allow for major accidents to the economic machine. A third trend, which is between the first higher trend and the second lower one, shows the growth in capacities of our economy and appears to be an acceptable basis for projection. It shows a rate of increase of 1.9 per cent per year.

The application of the projection of per capita production based upon the third trend to population forecasts gives a projected FRB index of production fluctuating from 125 in 1940 to 213 in 1955.

The reasonableness of this forecast can be shown by reference to the perishable goods portion of the FRB index. As shown in the table, the perishable goods portion of production has seldom been less than 13 per cent of total production. If we assume this ratio and take the likely level of this production as 24 points of the FRB index, we see that the total index must be about 185, a figure which is consistent with the 213 just obtained.

POSTWAR OUTLOOK

With some deferred demand, production of semi-durable consumers' goods is expected to exceed the trend line by 5 per cent for, say, two to three years and then drop to the trend line. Another possibility is that it will exceed the trend by, say, 10 per cent two to three years after the war and then drop below by, say, 5 per cent.

In both semi-durable and durable consumers' goods fields there is an immediate demand for replacement of both consumers' stocks and merchants' inventory. For instance, based on income alone (ignoring savings) there is an immediate demand for 10,500,000 passenger automobiles, or nearly three times the average annual prewar production. When we take into account the likelihood that some portion of war savings will be used for the purchase of cars and homes, it is clear that a very strong postwar picture is presented.

We must keep clearly in mind the fact that government or other bonds represent deferred claims for goods and services. Under our banking laws, these deferred claims to goods and services can be readily translated into current purchasing power or current claims to goods and services. For instance, a Series E bond due in ten years, a claim to goods or services ten years hence, can be turned into the Treasury which, in turn, may cash it—that is, convert it into a current claim for goods or services—by sending the owner of the E bond a check against a deposit created by a bank which is willing to buy a new government bond.

It happens, however, that it is not easy to convert deferred claims for

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goods and services into actual goods and services without bringing about inflation of prices. The difficulty arises because the production of goods and services to satisfy the deferred claims itself creates new claims which compete for the products with the converted claims. This is readily seen by breaking down the production costs into payrolls, taxes, interest, and dividend charges, the payments for which represent purchasing power or claims to goods and services.

In peacetime years the recipients of income tried to save $6,000,000,000 to $10,000,000,000 per year, of which only a small portion represented liquid savings in the form of cash and hoarded bank deposits; the rest was used as purchasing power in the markets for durable consumers' goods and capital goods and services. The prewar incentive to invest in durable consumers' goods like housing or in new productive facilities was not sufficiently great to entice all savings into investment, and deferred claims to goods were created. To offset this leakage some urged the creation of additional current claims to goods by means of federal deficit spending; others urged that the incentives be increased by improving the relations between government and business, by lowering taxes on the earnings of venture capital, by taking the government out of competitive business, and by making it easier to float capital issues. My former associate, Arthur Dahlberg, went so far as to advocate the taxing of bank deposits and cash. The country followed the course of deficit spending.

During the first ten years after the war, we probably will not have to worry about liquid savings in the form of either cash or hoarded bank deposits. A sufficient amount of government bonds will be converted into current purchasing power to offset any likely tendency to hoard cash or deposits. Some of the $24,000,000,000 of currency now in circulation will be used to buy goods and services. Thus, the prewar condition which led to federal deficit spending will not be present.

The vast amounts of government bonds held by individuals, cash or currency in circulation, and bank deposits, the increases in population that seem to be indicated, and the deferred demand for durable consumers' goods guarantee high levels of production of both semi-durable and durable consumers' goods.

The demand for capital goods depends upon the level of consumers' goods demand or orders and the percentage of industrial capacity used. It would seem, therefore, that the levels of operation in the semi-durable and durable consumers' goods industries will place heavy demands on the capital goods industries. On the basis of wear and tear due to the level of civilian goods production alone, and without reference to the capacity factor or need for plant expansion, the minimum level of capital goods demand would be about 70 per cent above the 1935-39 average. Taking into account the capacity squeeze and need for expansion, it is probable that the capital goods demand would drop only slightly below the 1941 level.

"Other goods" shown on the chart represents printing, chemicals, minerals, building materials for private and government construction, shipbuilding, aircraft, and miscellaneous production. Since 1940 shipbuilding and aircraft are shown separately.

Although a merchant marine considerably larger than prewar and also

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a two-ocean navy will probably be maintained, to be conservative shipbuilding and aircraft production have been dropped 95 per cent in calculating the forecast.

In the conservative outlook presented, it is assumed that public works will not be used to relieve unemployment at any time during the next three years, but rather that growth of the economy will require public investment for schools, hospitals, highways, streets, sewers, etc., at a rate above that of 1940.

By the third postwar year both industrial and public construction will have to rise substantially above the 1940 level in order to satisfy the needs of the expanded national economy of that time. By 1946, for example, population will have increased to at least 137,200,000; and education, increased savings arising from the war, and lack of strictly public construction during the war will have created a backlog of demand for essential public works, such as streets, sewers, roads, and schools. This is a supporting factor to an otherwise over-expanded section.

In brief, in the pattern offered it is assumed that production of other goods will be cut in half within nine months after the European war ends, and that this production will drop to about one-third of the peak about 15 months after the war's end. If the Japanese war should end almost simultaneously with the European war, other goods production might drop more sharply to the same level in nine months instead of 15. This would give a somewhat lower level for the FRB index of production. Even in this case, it is difficult to visualize an FRB index of production for any month below 150, or 50 per cent above the 1935-39 average.

In the adjustment period or the first three postwar years the strength of demand is such that the FRB index of production is not likely to decline below 170, or 70 per cent higher than the 1935-39 average, and it may not decline below 185, if we can develop export markets for capital goods. It will work upwards toward the 213 level expected in 1955.

We have forecast disposable income (national income payments less direct personal taxes) at $117,500,000,000 and $125,400,000,000, respectively, for the first two postwar years (assumed to be 1945 and 1946). These forecasts are consistent with an expected pattern of production about midway between the limits of 170 and 185 presented here.

If by any chance the European war should not end before next spring, consumer shortages will grow and all the above production figures must be raised slightly. Income will probably have to be raised sharply because inflationary forces will continue to operate. However, the real disposable income—income after taxes corrected for living costs—would not change materially from the pattern presented, except that it would have to be shifted forward by the number of months between the ending of the war and January, 1945.

* * * * * *

Question: I wonder, Dr. Roos, if you would be willing to sum up what you have said about the outlook for the immediate postwar period.

Dr. Roos: First of all, increasing population will support markets for perishable goods rather close to war time production levels. The same goes for semi-durable goods. For durable consumer goods, we can expect any-

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where from 50 to 100 per cent increase over prewar peaks; as far as capital goods are concerned, we can expect the best period in history, leaving out the '42, '43, and '44 war periods. The level of capital goods production should be above even that for 1941. In the way of industrial production, as measured by the Federal Reserve Board's index, we can expect something like 170 to 190.

I missed one point in my address. I discussed the question of deferred claims to goods as represented by the war bonds very briefly, but I said little about purchasing power. Well, the reason is this: Ordinarily, production generates sufficient purchasing power to buy the goods produced. If you sit down and figure out where your dividends and all the rest of the returns on capital go, and how your price is made up of wages and salaries, you must reach that conclusion. You cannot do otherwise. The production process itself—really production plus distribution—creates sufficient purchasing power to take the goods and services produced off the market. The purchasing power generated is sufficient to buy the goods and services, but the trouble is that it is not always exercised. In the past we have had the public trying to save from a few billion dollars to as much as ten billions a year without anyone attempting to invest the savings, which have appeared as idle bank deposits or idle cash. And so we have had inadequate purchasing power for the market. Now, as it happens, all the government bonds represent claims to goods and services, deferred claims. You do not have to have very many of them translated into current claims for goods and services—that is, turned in for cash to be spent on goods and services—to offset the purchasing power leakages arising from the saving the public might indulge in after the war.

In brief, currently generated purchasing power is enough to buy the goods and services that are produced. Therefore, if you have just a few bonds turned in year after year, you will have a constant support under the system to carry it on at capacity production levels for quite a while, at least until our banking authorities decide we need deflation of the 1921, 1931, or 1937 variety.

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TRANSITION AND POSTWAR PRICING

By CHESTER BOWLES
Administrator
Office of Price Administration

I SHOULD like to use this opportunity to describe some of the management and policy problems we must solve if we are to win our wartime struggle to hold the price line and assure fair distribution of scarce supplies.

There are five major problems which we must lick if we are to win this fight.

Food Rationing

OPA problem number one involves food rationing. A week ago today we announced a series of fundamental changes in our food rationing system. We invalidated surplus sugar stamps covering over 250,000 tons of sugar. We invalidated nearly 17,000,000,000 blue ration points, covering processed foods, and over 10,000,000,000 red points covering meats, fats, and oils.

We placed back on the list of rationed products 85 per cent of all meats sold in the average grocery store. We restored five canned vegetables to rationing.

The invalidation of ration stamps was one of the toughest decisions we have ever had to make.

When we originally said there would be notification in the case of invalidation of stamps, we did not estimate properly the number of stamps which would accumulate or the serious effect the spending of these stamps could have on reduced supplies.

We were wrong. We should have foreseen these possibilities. However, I was not willing to cover that mistake by working a hardship on the great majority who need their stamps to get their fair share of food.

THE AUTHOR Chester Bowles was born in Springfield, Mass., where his family has been identified with New England public life off and on for the last 100 years. His grandfather was Samuel Bowles, famous Civil War editor and founder of the *Springfield Republican*.

After graduation from Yale in 1924, Mr. Bowles worked on the *Republican* for a short time, but soon went into merchandising work in New York. In 1929 he started a marketing and advertising business which grew through the depression to become one of the leaders in the industry. The organization was one of the first of its kind to stress the importance of research in marketing, and special emphasis was laid on achieving wider distribution at lower prices.

Immediately after Pearl Harbor, Mr. Bowles tried to enlist in the Navy but was turned down because of a bad ear. He then offered his services to the Governor of Connecticut as a volunteer in organizing the first rationing boards in the state. Later he was made State Director of the Office of Price Administration for Connecticut.

Late in July, 1943, Mr. Bowles went to Washington as General Manager of the Office of Price Administration under Prentiss Brown. He completely reorganized OPA from top to bottom, streamlined departments, simplified regulations and procedures, and developed firm pricing policies to head off inflationary dangers. Early in November of the same year, he was appointed Administrator.

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OPA'S CHOICE

Our choice was simply this: First, we could allow the old stamps to remain valid and cut the value of the new stamps; or, second, we could cancel the old stamps and give everyone his fair share of 1945 supplies. The first plan would have allowed one comparatively small group of families a substantially larger share of 1945 supplies than the majority of families. That would have been unfair.

When we asked women who had extra stamps why they had not spent them, the large majority told us, "Because we did not need them." Most of them, I am sure, will tell you that it would be unfair to cut the rations of those who have spent their stamps promptly in order to allow an extra share of scarce foods to others who were able to save stamps when food was more plentiful. It was the hardest decision we ever had to make. We knew some people would be mad, and with many of them I really sympathize. That is no reason, however, why we should not insist on a fair share of 1945 supplies for each household, particularly when the supplies of these foods are lower than they have been at any time during the war.

Very frankly, these changes in our food rationing program, unwelcome though they be, ought not to have been postponed longer.

INFLATION IN POINTS

It was evident, then, that meat supplies were likely to be substantially below last year's level. We knew that billions of unused sugar stamps and blue ration points, representing inflationary ration currency, were a threat to the proper working of our whole food rationing program. We knew that the supply of canned foods allotted to civilians was unlikely to be sufficient to meet civilian demand.

The food requirements of the armed forces must be met.

The guns in Europe are still roaring today, and all of us realize that we are up against a tough struggle both in Europe and in Asia.

In many sections of the country, meat has been scarce. Distribution has been dangerously uneven. Three weeks ago, for example, 35 per cent of all stores were out of butter; 31 per cent had no rationed beef; 32 per cent had no veal; 45 per cent were out of ham; 66 per cent were out of bacon.

The Army's meat requirements have increased sharply. For the coming three months there will be 15 per cent less meat available for civilians than we had a year ago.

We are faced with the problem of distributing very carefully our available supply of canned vegetables for civilian use until the new pack is completed next summer.

Needless to say, the decision to restore more rigid food rationing was not an easy one. We dislike the necessity for additional red tape and inconvenience to our housewives and grocers.

But facts are facts. And in wartime in particular, they must be met honestly and fairly. The food rationing program which we launched recently will serve, over a period of time, to see that every family in the land gets a fair share of meat, canned vegetables, and sugar. If we had failed to meet

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this issue squarely, we would have failed to carry out the responsibility with which we have been entrusted.

So much for the policy aspects of the rationing situation.

ADMINISTRATIVE PROBLEMS

I think you may be interested, however, as management specialists, in the administrative problems of carrying out such a policy decision. Let me list some of them.

There are eight OPA regional offices, 93 district offices and about 5,500 local OPA boards—each one of which has to be given instructions for applying and interpreting the regulations.

There are about 8,000 wholesalers and 600,000 retailers of meat, processed vegetables, or sugar. Each one of these has to be notified of the basic decisions and provided with a poster showing the point values to be charged for each type of rationed food.

There are some 550,000 hotels, restaurants, and other institutional users of rationed foods, including schools, hospitals, asylums and jails. Each one of these has to prepare ration point inventories by the end of the year.

In addition, there is the problem of issuing new quotas to about 125,000 industrial users of rationed food products.

Moreover, there are about 1,500 newspapers and radio stations to be notified of the essentials of the program so that the buying public and food retailers may suffer as little inconvenience as possible.

NECESSITY FOR SECRECY

Finally, in the case of rationing changes, there is the special problem of maintaining complete secrecy while making preparations to carry out the administrative details. The printing of instructions and regulations, the notification of field offices, the necessary consultation with specialists in different parts of the Washington office and with officers of other agencies involve so many people that the maintenance of secrecy is very difficult indeed. And yet, if we are to avoid advance buying of newly rationed items or more tightly rationed commodities, it is essential that there be no advance notice to the general public. We have never succeeded in doing a 100 per cent perfect job.

On several occasions we have had to advance the effective date of ration changes because leaks had already occurred. Naturally, this leads to confusion, since we are then not able to put out the necessary instructions on time. However, during the last three years, we have all learned a good deal about the administrative details of rationing. The public is much better informed. The trades involved are very cooperative, and our own specialists have been trained in the hard school of experience. We can look forward, I think, to a much smoother operation of all rationing programs in the future.

Livestock Prices

OPA problem number two, for which we shall have to find some solution, is control over livestock prices. For many months now, live cattle have been almost the only basic commodity, either agricultural or manufacturing, on which there has been no price ceiling.

We have encountered difficulties in administering ceiling prices at whole-

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sale and retail levels because the price of the original product is not under control. But control over livestock prices involves serious technical difficulties.

In tightening controls over the top prices in livestock, we would be taking a step which, to many cattle raisers, would seem to be a drastic one. There is considerable resistance to it.

We in the OPA have felt for a long time that such controls are inevitable. If the authority should be delegated to us by the Stabilization Director, we would act promptly.

We feel we would be better protecting the public against overcharges at the retail level. But, again, it will be a tough decision, and it would not be an easy program to manage.

Since the quality of beef cannot be accurately graded on the hoof, it has to be graded after slaughtering. There are about 20,000 slaughterers, ranging from very small operations, employing a few men, to the huge, integrated companies making the fullest possible use of all by-products. These slaughterers must be inspected by a very limited staff of skilled people. The specialized knowledge required for proper inspection and grading of dressed beef takes many years to acquire.

In addition to the slaughterers, there are about 10,000 meat wholesalers and more than 500,000 meat retail outlets. Compliance with ceiling prices at each level of distribution must be achieved if the consumer is to be protected at retail. If there are violations at any level of distribution, it produces squeezes at later levels which make the elimination of black markets extremely difficult, if not impossible.

To secure compliance with retail ceiling prices, more than 1,000,000 meat price charts for different price zones have to be prepared and distributed in retail stores and to the price panels of local boards. Members of price panels must be recruited and trained to organize and administer the work of price panel assistants who help butchers abide by price regulations and take care of reported violations.

Success in carrying out this tremendous management task depends, to a very large extent, upon the understanding and cooperation of both the trade and the housewife. This, in turn, involves a program to provide information to trade associations, trade papers, general newspapers, and consumer organizations.

It's not an impossible job, but we're going to have our hands full.

Distributors' Prices

OPA problem number three, to which we must find a fair and practical answer, lies in our pricing policy as it applies to the distributive trades: sales agents, jobbers, wholesalers, and retailers. In justice to the consumer and to other segments of our economy, I believe we have no alternative but to apply to the distributive trades the principle of cost absorption we have so long applied to producers.

PRICE CONTROL PRINCIPLES

The Price Control Act states only that the ceiling prices set by the Office of Price Administration should be "generally fair and equitable." It was up

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to us to determine what those words mean in actual practice. To carry out the purpose of the Act we established pricing standards which required the absorption of certain increases in cost before price increases were allowed. If it had not been for this principle, the level of all prices would be far higher than it is today. We might well be headed toward a dangerous inflation.

In spite of the fact that we have insisted that manufacturers absorb increased costs as long as their over-all earnings were satisfactory, business in general has been far more prosperous than in any other period in the history of our country.

These principles of pricing were fully explained to Congress last spring. We spent many days before Congressional committees with charts and graphs, explaining our standards for price increases both as a general matter of policy and in specific individual cases. Since Congress extended the Act without any changes in these standards, it thereby expressed its approval of them. In a case decided in August, the Emergency Court of Appeals upheld their validity.

DISTRIBUTORS MUST ABSORB INCREASES

Even after reasonable cost absorption, however, price increases to manufacturers and other producers are sometimes necessary according to these standards. When those occasions occur (and I hope they will not be too numerous), it seems only fair and just that we apply the same accepted, tested principle of cost absorption to wholesalers, retailers, and other distributors.

As in the case of other groups, the distributive trades have been very profitable during the war period. Large department stores, on the average, are making nearly seven times as much on net sales as they were in 1936-39, and small department stores about nine times as much. The hardware retailers are making nearly three times as much on net sales as they did in 1936-39. The hardware wholesalers are making nearly twice as much. Greatly increased profits are also being made by music stores, dry goods wholesalers, etc.

THERE MAY BE SOME COMPLAINTS

As long as these wartime profits remain high, it is only reasonable for the distributive trades to help share cost increases. It is only proper that the consumer should be protected against increases in the retail price on those occasions where some increase is necessary at the manufacturing level. The pricing standards which we have developed are, I believe, entirely fair.

However long it takes to win the war, our pricing standards will leave the distributive trades, with rare exceptions, in a more profitable position than they have ever been in peacetime.

Again, I believe there is no question of the rightness of our stand. And again I am confident that the vast majority of store owners, wholesalers, and other merchants will cooperate with us to the hilt. But there will be some, of course, who will attempt to apply pressure and who will complain bitterly, even in wartime.

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Clothing Situation

OPA problem number four lies in the clothing situation. Clothing, as you probably know, is the only one of the three principal items in the cost of living which has risen in the last year and a half. The level of average rents throughout the country is exactly where it was 30 months ago. The index of individual food prices, according to the Department of Labor, is actually 5 per cent lower than in the spring of 1943.

But clothing prices have climbed steadily. The climb has been only a portion of that we experienced during the last war, when clothing prices increased more than *200 per cent,* but the price has risen steadily. The increase this time has amounted to something like *8 per cent* in the last 12 months. But this increase has bothered us a great deal and, in fact, has threatened our whole anti-inflation program.

DETERIORATION IN QUALITY

We have been further disturbed by the deterioration in clothing quality and the disappearance of low-price lines. These difficult problems must be met. And again the solution is bound to be disturbing to some groups.

The War Production Board has already taken steps to eliminate or curtail the use of fabrics for non-essential purposes. WPB is taking further steps to allocate fabrics to basic uses for which there is the greatest need.

The OPA in turn has taken strong measures to eliminate over-finishing and over-fancying of materials. We are now taking additional steps on finished clothing.

SOME MAY OBJECT

I am afraid some of our moves will not be greeted by cheers from some of those in the clothing field. But, again, I can only point out that the production of textiles and the manufacture of clothing has been very profitable during the war. Already we are open to grave criticism for allowing prices in this field to rise even to the extent to which they have risen.

If we failed to correct this situation now, we would be failing to carry out a major part of our difficult wartime responsibility. I am sure the steps which we must take during the next 30 days to bring clothing prices and quality under better control will be welcomed by consumers and will be conceded to be fair by all the responsible members of the textile and clothing industry.

It's not going to be easy, however, as I think you can judge from the administrative problems involved. There are 3,500 textile manufacturers, 650 converters of textiles, 5,500 wholesalers and jobbers, 1,900 apparel manufacturers, and 200,000 retail clothing stores. The trade channels through which textiles and apparel move are probably more complex and varied than those of any other industry. New firms are constantly entering the field while others disappear.

Continual changes take place in style and in the actual processes of

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manufacture. There are few satisfactory quality standards to which specific prices can be attached. There is so little uniformity of business practice that it is very difficult to draft satisfactory general rules under which we can operate.

We must have fairly accurate information on which to base decisions. We cannot play by ear without becoming arbitrary. If we are to have information, questionnaires which will cause the least inconvenience to business must be carefully prepared. The results of these questionnaires must be put in usable form.

After general regulations have been drawn, there must be provision for meeting the particular circumstances of individuals or special groups. Thousands of applications have to be processed. New prices have to be set on new goods.

Compliance with regulations must be secured at each level of manufacture and distribution through the cooperation of the trade press, trade associations, and individual businessmen. Compliance meetings have to be organized, and permanent compliance committees set up.

Specialized information in the form of press releases and easily readable trade bulletins must be prepared. Enforcement investigations have to be undertaken. Legal actions must be instituted and court cases presented.

For this stupendous job we have available from 200 to 300 price specialists, about 370 enforcement investigators and fewer than 100 attorneys for the entire country.

It is pretty clear, therefore, that even though the original policy decisions may be tough, the actual administration of these decisions involves a good many headaches before the results begin to show up in the cost of living. Such a program can't be carried through without error, without strain, irritation, and difficulty. But I believe that every month we stay at this our efficiency improves. We're a lot better at it now than we were two or three years ago. And none of us will be content unless we can continue to show improvement.

Reconversion Pricing

Finally, on our list of OPA problems, there is the question of reconversion pricing. When the happy day eventually comes when our factories once again hum with the manufacture of such consumer goods as automobiles, vacuum cleaners, washing machines, and radios, we shall be faced with the problem of reviewing ceiling prices in these fields—most of which reflect March, 1942, prices.

Our policies in this field have already been stated on other occasions. Let me repeat them here. It is our belief, based on preliminary studies, that with relatively few exceptions the consumer durable items which have been off the market during the war years can again be placed on sale at the prices which were charged the consumer during the first quarter of 1942.

There have, of course, been some increases in wage rates and some increases in raw material prices. But for all these products there will be an almost unlimited demand, once the war has been finally won. Big volume makes for lowered costs. Selling costs will also be lower, and overhead charges will be reduced. We believe that these reduced costs will go a long

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way toward offsetting such increases in wage rates and material prices as there may have been. When cost increases cannot be absorbed by the manufacturers, we shall ask, within reason, that they be absorbed by those who distribute the product to the final consumer.

RETAIL PRICES MUST BE HELD

If we are to meet squarely our aim of a stable peacetime economy, if we are to hold the line vigorously and courageously against inflationary forces, retail prices on these products must be firmly held. This, I believe, can be accomplished with full allowance for generous profits, in most cases, to manufacturers, distributors, wholesalers, and retailers.

MUST FOREGO INFLATIONARY PROFITS

Our American economy runs on the profit motive. A fair and just profit at all levels of production and trade should be maintained. But we must appreciate, too, that while some costs go up, other costs go down. And if we are really determined to control the forces of inflation, we must be willing to forego the chance for inflationary profits, which, pleasant though they might be for the moment, could only lead to disaster.

I have listed just a few of our problems. Most of them are not easy. I can assure you that the handling of them is not a pleasant task. In seeking their solution, we are certain to make some mistakes. In any such vast operation as this some errors and some irritations are inevitable.

As I have said so many times before, we will work constantly to eliminate such mistakes as fast as they occur, and to provide the fairest possible administration of the law which Congress has placed in our charge.

We all know that wartime controls are difficult and unpleasant. But we shall accept them, I believe, with relative cheerfulness as long as we have reason to believe they will fulfill these objectives.

Can We Hold the Line?

Can we actually hold inflation in check? Can we maintain a stable economy? Can we avoid the skyrocketing prices which historically have always gone with war? Frankly, I believe we can. But let me quickly add that I am not *over-confident.*

THE RECORD SO FAR

So far our record has been reasonably good. The level of wholesale industrial prices is only 3 per cent above the prices of 30 months ago—that is, the spring of 1942, when OPA price control first went into effect. During the last 18 months the average of these prices have been held almost exactly even. That means millions upon millions of dollars already saved in the cost of fighting the war.

The cost of living since the first days of price control has increased only *9 per cent.* Since our OPA controls have been perfected—that is, since the spring of 1943—the increase has been only *1 per cent.* As I pointed out, we

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have been weak on clothing, but that weakness has been largely offset by our record on food and rent. I believe that our new clothing program will put an end to price increases in the clothing field.

OVER-CONFIDENCE INADVISABLE

But we cannot afford to be over-confident. It would be folly to make promises in a field as difficult as this. We should remind ourselves that once before we met the problem and fumbled it rather dismally. After the defeat of Germany, in 1918, prices for a while fell off. From one end of the country to the other, it was said that the danger of further inflation was over. But in March, 1919, prices started upward, and a wild scramble for inventories developed. Prices went higher and higher, with wages tagging along behind. The white collar worker—as usual—faced special difficulties.

In June, 1920, the inflationary boom collapsed. In a single year $11,000,000,000 in inventories were wiped out. Substantial business profits turned into losses. Net farm income dropped by 62 per cent. Factory payrolls dropped 44 per cent.

If our price structure were again to get out of hand, the consequences would be far, far worse. The amount of inflationary pressure in this country today is unbelievably great. If the inflationary forces are not firmly and courageously controlled, neither you nor I nor anyone else can estimate the chaos which could result.

The war in Europe today is a long way from being won. Those who are in a position to know say that many months of hard fighting lie ahead of us. During those months, we who are responsible for the control of prices and those who are responsible for production, both in our factories and on our farms, will be faced with problems that will be staggering.

But when the German war is won, we in the OPA may be faced with problems which may be even greater—for, as I pointed out, it was *after* the Armistice of 1918 that the greatest price increases occurred after World War I. For this reason we must hold the price line firmly not only until VE Day, but for some time thereafter.

AFTER VE

Many of us feel that the greatest inflationary threat will come from four to seven months after the Germans finally give in. It will be then that the first consumer durable products come into the market in quantities far below the effective demand. It will be then that our workers will regain their confidence with jobs in peacetime industries. It will be then that our savings will come out of our banks and war bonds. It will be then that the terrible threat of an inventory boom will be most potent. In this period we shall all be called upon for our greatest efforts—if inflation is to be finally licked.

But there will come a time when supplies again begin to approximate demand. At that time price controls will be eliminated first from one field and then from another. I can assure you we are only too anxious for that day to come.

In the intervening months, our task will be great. Without the vigorous

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support of farm groups, labor groups, our Congress, and the people in general, we in the OPA cannot hope to accomplish our task. Without such support, we shall be swiftly swept aside, and the floodgates of inflation will open.

DANGERS OF THE SITUATION

In the struggle to maintain a stable price level, our whole economic future may be at stake. If rents should start up, if food, clothing, and raw material prices should start up, the rise would gain in speed and soon be beyond our powers of control.

We would again face economic disaster and collapse—collapse from which our economy could recover only with great difficulty and after widespread suffering.

When the war is won, our hearts are set on a new and vastly more prosperous America, with plenty of jobs at good wages, with good income for our farmers, with reasonable profits for our business men.

The world we live in, when the peace finally comes, will be an unsettled world—potentially a revolutionary world. If we in America are to know full security, full prosperity and full opportunity, we must make our economic system work effectively and efficiently in the interest of all of us.

We must fully employ all our resources and all our manpower to raise our standards of living to provide good jobs, a good education, decent medical care, vastly improved housing, and a generally higher standard of living for every family in the land. If we fail to meet this test, our system will have failed. We shall have failed, and America will have failed. The price control program, for which we in the OPA are responsible, is a basic part of this fight for a finer, more prosperous, and more democratic America.

We shall need your help, your understanding and your support if we are to succeed in meeting our responsibilities in the difficult months that lie ahead.

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ONE WORLD—ITS SALES SIGNIFICANCE

By JOHN J. ABBINK
President
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and
Vice President and Director
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AN experience of more than a quarter century in foreign trade warns me that in the short space available I can hardly trace the outline, even, of a problem which has many facets, much less deal completely with any of its aspects.

Nor does it help that we are at a period when only one thing is certain, and that, uncertainty. Universal confusion of thought exists and increases because conditions under which people have lived in the past, here or overseas, are being affected profoundly by military campaigns whose end is nowhere in sight, and whose impact extends far beyond immediate battlefields. The turmoil that has followed the liberation of Italy, Greece, Belgium, France, and parts of Poland is but a foretaste of what probably will be repeated in other parts of Europe and in the Far East as war-imposed compulsion is relaxed. Quite literally, we shall face a new world when the fighting ceases, and none can tell what code of commerce may then be written.

What I propose to do in the circumstances is to present for your consideration some reasoning I have applied to the solution of problems in foreign trade that have arisen in my own business, and to those of others who have asked me for advice.

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NEED FOR JUDGMENT

There is probably no phase of business that is less understood, or about which there is more misconception, than our commercial relations with other

THE AUTHOR Business Publishers International Corporation, with which Mr. Abbink has been associated since its formation, publishes technical and business magazines serving foreign trade and circulating entirely outside the United States, throughout the Western Hemisphere, Africa, Europe, Asia, and Oceania. McGraw-Hill, of which he is a director and executive vice president in charge of editorial operations, is well known as the publisher of technical and business magazines and books.

Mr. Abbink is also publisher of *Engineering News Record* and *Construction Methods*, two of the most important McGraw-Hill magazines. He is a director of the National Foreign Trade Council, Inc., a member of the Joint Canadian-American Committee of the U. S. Chamber of Commerce, and for the past three years has been chairman of the Final Declarations Committee of the National Foreign Trade Convention. He is widely known in foreign trade circles in the United States and a frequent speaker on export and related problems before business and financial groups.

Mr. Abbink has also participated in several international conferences. He was a United States delegate to the Third Pan-American Highway Congress at Santiago, Chile, in 1939, and was technical adviser to the United States Delegation to the Fourth Pan-American Highway Congress at Mexico City in 1941. He was formerly with the International General Electric Company, for which he traveled literally all over the world.

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countries. People fear what they do not comprehend, and readily attribute to it blame that belongs elsewhere. Because of this benightment, foreign trade has been used as a national political football for decades, and many a pompous nitwit has taken his seat in Congress as the result of party dogma or pressure group misrepresentation that inspires emotionalism when the need is for sober judgment.

Usually this perversion has taken the form of solicitude for labor, and a comparison of wage rates existing here and in one or another overseas country is offered as conclusive evidence of the need to protect the workers in our factories and on our farms. There was some of this specious presentation even during our most recent election campaign, though the argument has lost much of its appeal, except in sections where intense political prejudice or low levels of education persist. Comparison between the income of a laborer in the United States and that of a Chinese coolie will not serve much longer as a shibboleth for office seekers when the production records we are now making become increasingly available.

Unfortunately, it has taken the bloodiest war in history to demonstrate to ourselves as well as to others what a marvelous production machine the United States has become. Our consistent policy of constantly increased wage levels has forced us to widespread adoption of labor-saving methods and devices, until it is estimated that we now have from four to ten times as much invested in plant and machinery per worker as do any of our past or prospective competitors overseas. As a result, we have been able to control labor costs to the degree that they compare favorably with those in low-wage countries, and to expand output beyond anything the world has known.

This revelation of our productive might and its postwar potential seems to me to pose two dangers to our foreign trade.

THREAT OF FOREIGN NATIONALISM

The first is that other countries, quicker than we to perceive the reasons for our industrial supremacy and their own inadequacies, and forced to protect themselves against our efficiency, may promote a nationalism that will make the past hysteria of the isolationists here at home seem reasonable by contrast. Persistence in such a campaign might easily result in the political conviction throughout Europe, particularly, that only some form of state socialism could possibly provide the capital necessary to establish an economy comparable with ours.

There are disturbing indications already that either or both of these alternatives is being seriously considered, even among our allies. One need only read the reports to the British Board of Trade by various English industrialists who have visited this country recently to realize how profoundly our production records, both in manufacturing and in agriculture, have affected thought in Great Britain, and inspired fear of the future. In many applications British methods are far behind our current techniques, and staggering amounts of capital will be required to modernize production facilities there if Britain is to be a competitor in world markets when peace comes. This realization has provoked a reexamination of the possibilities for trade advantage to be obtained for England from an extension of the system of Empire Preference, whose restrictions in the past have so adversely affected

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our business relations with various of the Commonwealth nations. The conviction grows in many British circles, as it is widespread in France, that only by recourse to the public treasury will it be possible to obtain the funds that will be required to rebuild and reequip so as to meet our challenge in overseas markets effectively.

It is one of history's great anomalies that the United States, which once professed to fear a flood of cheap imports, and erected ever higher tariff barriers against them, should in turn be feared as a threat to the economic stability of the rest of the world. Some of the apprehension that is expressed may be in the nature of shadow boxing, and its progress should warn us of the feints we may expect in the coming contest for world trade. None who would assess the prospects of future business abroad can afford to disregard the portent, however.

UNREALISTIC PLANNING

The other danger posed by our system of producing prodigiously while maintaining consistently higher wages than exist anywhere else, is that we will use the wealth and power it has given us improvidently and unwisely, once world reconstruction begins. Despite what the stargazers say, it is no more possible to raise the living standards of the teeming millions of Asia or the blighted hordes of Europe overnight than it is to develop a championship strain of cattle from a bunch of scrubs in a single generation. None of us questions the necessity for relief in battle-scarred areas, but furnishing supplies beyond immediate necessities, or at a level to which the recipient has never before been accustomed, is of doubtful judgment, however charitable our instincts.

An economic peril nearly as great is the grandiose assumption that all the surplus equipment, much of it highly specialized, that we have provided for the war effort, can be disposed of easily abroad, and at some salvage value. Theorists grow lyrical over the opportunities in China, or India, or other remote lands for all manner of industries that only a highly integrated economy such as ours could operate or support. Civilization never yet has been transplanted; it is a product of uncertain and often tedious growth. As well send a giant bulldozer to the lone inhabitant of a desert isle who does not know the functions of a wheelbarrow as to dream of huge factories in many lands where little more than blacksmith shops have hitherto existed. More than just the desire for industries is required—there must be "know-how," not merely plenty of human hands that are parts of hungry bodies. And know-how is acquired but slowly, as Russia has painfully discovered.

APPRAISING TOMORROW'S MARKETS

It will take generations of Mr. Churchill's "blood, sweat, and tears" to attain the universal Utopia which the impractical project so glibly. To bring the rest of the world up to a standard of living that even approaches what we have achieved, slowly but surely, is El Dorado enough for those of us who plan with the knowledge that we will be judged by the results we accomplish. The world is no dumping ground for the surpluses that arise either from the exigencies of war or the production gambles of peacetime. I do not mean to say that much of what we will have in over-supply cannot

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be disposed of overseas. But bargain sales rarely promote good will, or result in satisfied customers, and our need will be for markets for things we will be producing as we begin our own reconstruction.

Perhaps you will consider that I am unnecessarily pessimistic. I assure you that I am not. What I am trying to do is to condition your minds for the job which lies ahead of you, because I am convinced that those who plan sales will be much the most important factors in the business world of tomorrow. Events have forced an emphasis on production during the past five years, marketing has been neglected, almost; and it is important, I think, that those who are charged with responsibility for the orderly disposal at a profit of the product of our vastly expanded industries have a realistic appraisal before they blueprint their campaigns.

CAN WE AFFORD ISOLATIONISM?

I have been asked frequently, of late, whether export markets are really necessary for the United States. Couldn't we get along, the query goes, without becoming involved beyond our borders, once we have made the readjustment to peactime conditions?

My answer, hesitantly given because I am not sure, is yes, perhaps we could if we are ready and willing to face the inevitable consequences. There are a few things we do not produce, agricultural, mineral, and scattered industrial specialties, that we could probably bargain for over a Chinese wall of seclusion, giving in exchange commodities that we could easily supply from our abundance.

The dilemma that then would confront us would be threefold, in my opinion. First would be the need for the maintenance indefinitely of an armed force sufficient to protect us against attack by any conceivable combination of world powers. The United States represents incomparably the greatest storehouse of wealth that history has known. The temptation to seize all or parts of it would be too great to resist for nations whose record for centuries has been one of plunder.

With a large military establishment unavoidably would go stringent and continued regulation by government of all business and other activity, whether in industry, agriculture, or mining. This point seems so obvious that it needs no elaboration, though it might be illustrative to cite Germany during the past decade as an example.

EFFECT ON EMPLOYMENT

The third consequence that rigid isolationism must bring would be unemployment compared with which our experience in the early '30's might seem like a weekend holiday if its consequences were not still so apparent. Recognized authorities estimate that our productive capacity has increased by at least a third since 1940, and there simply would not be warehouse space sufficient to house the commodities that would be in oversupply once war and lend-lease shipments were to cease, if production continued at its present rate. Unemployment means political paternalism, whose increase none that think will contemplate with peace of mind.

Not that I would have you believe that exports continued at levels we could reasonably expect under even the most favorable circumstances would

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solve all our unemployment problems. But a liberal attitude in this country toward foreign trade, and a genuine appreciation of its place in our economy, will be indices of world prosperity, and therefore of our own ten years hence. Prior to the war some of our industries could not have been profitable without export markets. More will find themselves in that predicament when peace comes, and to force them to confine their sales within our boundaries means a national readjustment we can ill afford with our mounting debt burden, and if we hope ever to be free again from political controls. It is for this reason, if for no other, that foreign trade bears a relation to our well-being that is out of all proportion to the ratio between the number of workers employed in producing for export and the total number of our workers.

A study by the National Planning Association indicates that exports from the United States postwar must be maintained at an average of about two and one-half times prewar levels if reasonably full employment is to be achieved. If you are statistically inclined, that means between $7,000,000,000 and $10,000,000,000 of sales overseas, including invisible items such as freight, insurance, etc.

FINANCING EXPORTS

How, you may well ask, are we to be paid for such a volume of trade when there was sometimes difficulty in financing a much smaller total prewar? The answer is not easy, because we have become cynical over the defaults of the past without analyzing the reasons for them. Just as many a bankruptcy occurs in this country through the pressure for sales by suppliers rather than dereliction of the buyer, so have we been partially, at least, to blame for the unsavory record we have made in international financial transactions.

Much of the volume of our exports will be paid for by imports of the thousand and one items that we have always drawn from overseas. In addition there are vast sums that have been accumulated, owned by foreign accounts and on deposit in our banks, that will serve to finance a resumption of trade. Official sources indicate that such balances now amount to about $10,000,000,000 in cash and earmarked gold, and an equal amount in short-term dollar assets, a total of some $20,000,000,000, up about $6,000,000,000 since Pearl Harbor day, and increasing at the rate of more than $3,000,000,000 a year at present. Sterling balances in London owned by non-British sources are in excess of $12,000,000,000. Controls here and abroad are such that there is little possibility of these funds' being called or used in a way as to embarrass our position or that of the British. They are more likely to be exported in the form of goods than in that of money. The notion that the world is too poor to buy anything is misleading, whatever the "do-gooders" may say. Abnormally large amounts of liquid funds exist today, and will be available as soon as there are ships to sail to supply postwar demands.

PROVIDING FOREIGN LOANS

It is not in the immediate postwar or readjustment period that the crisis will come in our foreign trade accounting, but at the time we are faced

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with lending our capital for the development of resources in overseas countries. If we repeat the follies of the roaring '20's, when loans could be had for the mere asking, almost, our experience will be doubly disastrous. Just as some political subdivisions in our own West are still amortizing loans that were imposed upon them by ruthless pioneer exploiters shortly after the Civil War, so a number of overseas countries are saddled with obligations incurred by collusion between unscrupulous bankers here and local politicians, not one penny of whose proceeds reached the projects for which they were intended.

Again, in the early '30's the funds which had been accumulated by Germany for reparations for damage during World War I were remitted to her, without restrictions that could be supervised, when the Dawes Plan was discontinued. Germany promptly diverted the bonanza to a bedevilment of world trade practices, and to a furtive but effective armament program.

As the world's greatest reservoir of capital, the United States will receive many appeals for funds, some flattering, some tragic in their implications. We shall need to steel ourselves against some of them, and be prepared to investigate the rest much more thoroughly than the prospective borrowers will like. In a recent address before the National Machine Tool Builders Association I predicted that one of our chief exports in years to come will be human brains—skilled technicians who will be sent overseas to pass on the merits of the projects for which financing is required, and to supervise the operation of such establishments as are proved worthy, until we are sure the funds we advance will be used for what they were intended.

FINANCING OVERSEAS DEVELOPMENT

Under such a plan there is every reason why we should participate to the limit of our ability in the development of the resources of the world. Isolationists may protest that the money would be better spent at home, but the fact is that the standard of living we have achieved in this country cannot be maintained against comparative misery elsewhere. Two wars in a quarter century should have convinced us of that by now. Beggars cannot buy our surpluses, and malcontents abroad are as dangerous as they are at your factory gates. Until there is hope and opportunity abroad, we will ourselves never re-attain the standards we enjoyed only a few years ago when we were at peace.

Nor need the prospect alarm us of increasing productivity overseas, so long as it is in pursuit of a higher and peaceful living standard. The record of 50 years in our exports proves that our best customers are the highly industrialized nations. It is interesting to plot the curve of shipments to Brazil over a long period, for instance, and to note how it ranges upward as a measure of what is being accomplished in building a more stable economy there. To be sure, the character of exports changes as countries develop but the totals invariably have increased. For proof I need only cite the fact that the United States is the greatest export market in the world to more than a hundred overseas countries, in spite of the degree of self-sufficiency we sometimes think we have attained. Nations, just like individuals, become better potential customers as their incomes and living standards increase.

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LATIN-AMERICAN MARKETS

Some there are who feel that we should blot out the rest of the world as an export market, and concentrate our attention on the Western Hemisphere. That suggestion tends to oversimplify the solution to our problem, and is subject to some suspicion as a deliberate isolationist diversion. Latin America will always be of primary concern to us, for security as well as business reasons, and, on balance, has justified all the solicitude we have demonstrated in our hemisphere dealings. She has made a magnificent record in supporting our war effort, barring Argentina, perhaps, and has built credits much greater than at any time in her history for use postwar. Don't sell Latin America—even Argentina—short in your export planning.

But all of Latin America has only 125,000,000 people; the whole Western Hemisphere, including the United States, has less than 15 per cent of the world's population. Latin America requires little from us in the nature of agricultural products, whose over-supply will continue to be our number one headache so long as our political and farm leaders stubbornly refuse to face facts; and the nations to the south of us will never be able to absorb all of our surplus of heavy industrial products. Besides, whatever good will has been stimulated in Latin America through the Good Neighbor policy would be dissipated overnight if we indicated any trade imperialism whatever in our dealings on this hemisphere.

HOLDING OUR OWN

Our past record of exporting to Latin America is the best assurance I can give you of the ability of exporters in the United States to compete with the world in overseas sales. Taking 1938 as the last completely normal prewar year, the statistics show that Latin America bought from us more than she did from Germany, Italy, Japan, and England *combined*—34 per cent of her imports came from us, 20 per cent from the Axis countries, and 12 per cent from England, a total of 32 per cent from our principal competitors as a group. Germany's share alone was 14 per cent, less than 40 per cent of our volume. Remember that this was during a year when barter deals and pressure policies were at the height of their success. Whatever the competition, exporters in the United States have demonstrated conclusively that they can hold their own in markets that are open to all.

POSTWAR IMPORTS

I am asked what will be the nature of the products that will represent an increase in our imports into the United States. I don't know. I could point out that there is general agreement that we must stockpile strategic materials so that we will never again face the dilemma that confronted us four years ago, when Japan cut us off from the source of vitally needed tin and tungsten and rubber and vegetable oils, and other commodities we had never expected to want for. Your reason quickly would reply that $10,000,000,000 might be all that we could prudently invest in such a venture; and that while the expenditure of so vast a sum in addition to that required for

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imports currently consumed would stimulate a comparable amount of exports, it would not be a revolving fund, perhaps, which replenished itself periodically, and that its impact would be temporary.

That is true; though stockpiling by the United States would greatly energize world trade during the first few critical years after the war, it is not a policy that would provide a permanent solution to the problem of imports.

If you will look through the Commerce Year Book for 1938, generally accepted as the last completely normal prewar year, you will find that there were imported into the United States no less than 2,500 items, ranging in value from $138,000,000 for 1,000,000 tons of coffee, which was our largest single import, to four dollars for two pairs of boxing gloves, which was one of the smallest items. An examination of these import statistics will give you a much better idea than could any words of mine as to the classifications into which our imports of the future will fall.

My guess would be that the increase in our imports postwar will range over practically all the items we brought in prior to 1939, plus such specialties as have been developed since. I venture the statement, even, that we will reduce our tariffs still further in return for similar concessions from others, once we realize how greatly we have reduced costs as compared with those existing elsewhere, and in the interest of a greater volume of total world trade.

WILL WE TAKE INITIATIVE?

Now that I have dealt, doubtless too superficially as I warned at the outset, with the questions I have been asked to discuss and some others, may I elaborate a thought that has troubled me greatly during the past few months? It has to do with a conviction I have that we are permitting ourselves as a nation to be placed in the same unenviable position that we found ourselves in after World War I. Others proposed peace terms; and having none prepared ourselves excepting a nebulous "14 points," capable of various interpretations, we were at a distinct disadvantage. Eventually we found ourselves universally blamed for the failure of the peace treaty that was written.

The fact is that America has no choice but to assume leadership in world affairs, for the weight of our influence will be felt by other nations whether our attitude be positive or negative. And the cost to us of any international obligation which we might undertake must, in all fairness, be weighed against the equally real cost to us of dealing with measures that others may take to protect themselves against the results of our non-participation.

We have tended in the past to approach international commitments timidly, fearful that we might be outwitted in a world battle of wits. And in so doing, we have too often ceded to others the initiative of suggestion, leaving to ourselves the thankless task of accepting or rejecting what they demanded of us. Our greatest bargaining weakness stems from the fact that other nations, by contrast feeble in potential power, know what they want and are able to mobilize all their strength to achieve it.

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The United States can be the most effective nation on earth in peace as well as in war—if only it knows what it wants. I am fully aware that no individual or group can speak authoritatively for the whole of our people. But I hope that an honest attempt to formulate sound concepts of national interest in crucial economic matters will help to crystallize American policy, both by focusing agreement and by eliciting dissent. There is time only to indicate in broadest outline what I conceive to be desirable foundations for an economic policy for the United States:

1. The attainment of a high and sustained level of business activity and employment in the United States and in the world.
2. Active and expanding markets for world trade based upon fair competition rather than upon bloc agreements, discriminatory preferences, and cartel arrangements.
3. The encouragement of industrial development in nations that have been backward in that respect.
4. A recognition that hospitality to imports, rather than constituting a threat to national standards of living, offers in fact the most potent instrument for international bargaining that any nation can command.
5. A willingness to assume a responsible national role in international arrangements designed to provide such financial stability as may be needed to support mutually advantageous world exchange of goods and services.

We must see to it this time that the end of military warfare does not merely open the door again to an era of economic warfare. To insure that result we have only to ask of all our people two questions that I now pose for you:

"What does the United States want out of this war?"
"Why not ask for it?"

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MARKETING SERIES NUMBER 59

DETERMINING MARKETS AND DEFINING SALES TERRITORIES

With a Paper on a New Method of Business Forecasting

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A NEW APPROACH TO THE PROBLEM OF MARKET ANALYSIS

By WASSILY LEONTIEF
Associate Professor
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Harvard University

A MARKET analyst is confronted with three rather different sets of questions. First, there is the problem of the general state of the nation's business: Are we going to face prosperity or depression? When will the general upswing turn into a downswing? Is the total volume of consumers' expenditures to be $80,000,000,000, $100,000,000,000, or $120,000,000,000? On this level of analysis, we think in terms of aggregate national income and of total employment, and we deal with general indices of business activity, be it the total volume of bank clearings, the index of car loadings, or the index of industrial production.

Then we might center our attention on the outlook of a single industry, on one particular type of product. We try to determine what is going to happen to the demand for gasoline, what will be the next year's level of lumber shipments, or how many refrigerating units are likely to be sold in the year 1946.

And, finally, there comes the question: What are the sales prospects of my particular firm? How many Philco sets can be marketed next year? What is the prospective demand for the General Motors Diesel unit? How many tons of brass tubing will this or that company sell in the first postwar year?

The answer to a question asked on a lower level of analysis depends partly upon answers given on the higher level, and partly upon additional factors and considerations peculiar to that particular lower level. It is natural to hitch the analysis of the outlook for a single industry to the forecast of the general level of economic activity as described, for example, by the expected size of the national income. But to do it properly, one must know a lot about the specific problems of the industry in question. It is equally sensible to approach the estimate of future Frigidaire sales through a general study of factors determining the share of this particular brand in

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In 1927-31 Dr. Leontief was connected with the University of Kiel, Germany, and in 1929 he was economic adviser to the Chinese Government in Nanking. He came to this country in 1931 and joined the staff of the National Bureau of Economic Research, and then became instructor in economics at Harvard. He became assistant professor in 1933 and associate professor in 1939.

A Guggenheim fellow in 1940, Dr. Leontief is the author of *Structure of American Economy* and of numerous articles on economic subjects, published in both American and foreign journals.

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DISTRIBUTION OF FERROUS METALS SALES BY VARIOUS CLASSES OF PURCHASERS, 1939

Industry to Which Sold		Value of Sales (in millions of dollars)
Total, all industries		3,887
Group 1, Agriculture and fishing, total		24
Group 3, Ferrous metals, total		1,188
Blast furnaces	272	..
Steel works and rolling mills	916	..
Group 4, Motor vehicles, industrial and heating equipment, total		479
Automobiles	374	..
Industrial and household equipment, n.e.c.	105	..
Group 5, Metal fabricating, total		861
Iron and steel foundry products	45	..
Shipbuilding	36	..
Firearms	1	..
Agricultural machinery	55	..
Engines and turbines	3	..
Transportation equipment, n.e.c.	23	..
Machine tools	6	..
Merchandising and service machines	10	..
Electrical equipment, n.e.c.	49	..
Iron and steel, n.e.c.	633	..
Group 6, Nonferrous metals and their products, total		43
Aluminum products	1	..
Nonferrous metal manufactures and alloys	42	..
Group 10, Lumber, paper, and their products; printing and publishing, total		64
Furniture and other manufactures of wood	64	..
Group 14, Construction, total		592
Group 15, Transportation, total		69
Steam railroad transportation	69	..
Group 17, Foreign countries (exports to), total		171
Group 18, Business and consumer services, total		1
Repair services other than automotive	1	..
Group 19, Government and households, total		12
Government	11	..
Households	1	..
Group 20, Unallocated and stocks, total		383
Stocks	14	..
Unallocated	369	..

Table 1

the aggregate demand for household refrigerators; but this cannot be done without a thorough knowledge of the sales conditions for that particular brand.

It is clear that the relationship between the three levels of analysis is not a one-way relationship. This becomes obvious as soon as we remember that an industry, after all, is nothing but a group of firms, and the whole national economy is simply a combination of separate industries and households.

It is primarily the market analysis on the intermediate, the industry level—and its relationship to the upper, the national level—which I shall discuss here.

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The traditional or, should I say, the tried and proved method of estimating the probable future demand for the products of any single industry is that of time series analysis. You chart the monthly or annual sales of the industry for the last five or ten or 15 years; you put on the same graph some reference series such as the national income figures, the index of department store sales, or the number of automobile registrations; and you try to discover some more or less regular, stable relationship—a correlation—between the ups and downs of the one series, the movement of which you wish to predict, and the fluctuations of those others, the reference series.

Such a system might work quite satisfactorily, but it also might break down quite suddenly; and if it breaks down, if your curves begin to assert themselves through a most unexpected and disconcerting independence in their behavior, you remain, more often than not, quite ignorant of the real cause of this breakdown, since the very formal—not to say mechanical—nature of the whole procedure precludes the possibility, as well as obviates the necessity, of a really detailed analysis of the actual, material relationships underlying these statistical correlations.

In a period of transition, such as we shall be facing immediately after the war, and in times of rapid change, such as are likely to follow, only limited reliance can be placed on mere statistical correlations and covariations. Every possible effort should be made to analyze the actual structure of the markets. Structural analysis must support and supplement, if not replace, the time series analysis.

WHO BUYS OUR PRODUCTS?

The level of sales of any particular industry depends, in the first instance, upon the level of activity of the other industries to which it sells its products, and on the level of the households' demand, insofar as its products are purchased by final consumers.

Thus, the first question we have to answer is: Who buys the products of our particular industry, and how much is being taken by each separate category of buyers?

Since the distribution of sales varies from year to year, let us first of all compile the relevant figures for some base period—the year 1939 can be appropriately chosen, being the last normal prewar year. The group of industries commonly defined as ferrous metals manufacture can be conveniently chosen as a concrete example. Although, as I shall explain to you later, the analysis can, and in many instances should, be conducted in terms of a much more refined industrial classification, for purposes of the general description of the method, a simplified approach based on a less detailed industrial classification is definitely preferable.

Table 1 shows the distribution of sales of the ferrous metals industry for the year 1939.

The total output amounted in the year 1939 to $3,887,000,000. Of this total, $374,000,000 worth of products was sold to the motor vehicle industry, $633,000,000 to intermediate fabricators of iron and steel products, $592,000,000 to the construction industry, and $171,000,000 to foreign countries as exports. Only $12,000,000 worth was purchased by final consumers directly—that is, by American households and government institutions. All

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in all, there are listed in this table 29 different kinds of purchasers of ferrous metals and their products. The $1,188,000,000 worth shown as sold to the ferrous metals industry itself consists primarily of unfinished material transferred from one division of the industry to another. We enter this figure in our table chiefly for the purpose of better statistical control of our data.

For simplicity in presentation, these 29 different kinds of consumers can conveniently be combined into 17 larger categories. The corresponding totals for these larger groups are entered in the second column of Table 1. These were the principal markets for the products of the ferrous metals industry in the year 1939. Any increase or decrease in its sales volume will depend mainly upon possible expansion or contraction of the use of ferrous metals in each of these 17 different lines of demand.

Let us take, for example, the purchases of ferrous metals by the metal fabricating industry. In 1939 they amounted to a goodly sum—$861,000,000. Ferrous metals are used by this category of purchasers as raw materials for further processing and fabrication. It is evident that the size of these purchases depends almost entirely upon the amount of products which the metal fabricating industries themselves can produce and distribute.

The production of any given amount of products by the metal fabricating industries requires a pretty closely determined input of ferrous metals. The same can be said of the use of ferrous metals by food-processing industries, the automobile and industrial heating equipment industries, the chemical industry, and, as a matter of fact, any other industry.

In general, we see that the total demand for ferrous metals depends:

(a) Upon the level of output of each of the ferrous-metal-using industries.

(b) Upon the amount of ferrous metals which each of these industries requires per unit of its respective type of products.

This brings us to the second round of our analysis—the study of the market for the products of the industries using ferrous metals, a study which, incidentally, should by itself be of considerable interest to the management of these particular industries.

This second round should be followed by a third, a fourth, and so on. In short, the sales outlook of any one industry is inseparably connected with the level of output of many other industries. Only a simultaneous analysis of a whole group of interrelated industries, or even of all the major branches of the national economy, can supply a satisfactory foundation for a really efficient market analysis of any one of them. This, of course, is just a statement of a general principle. Now let me describe to you a practical procedure which makes it possible to put this principle into actual operation.

DESCRIBING THE INTERRELATIONSHIPS

First of all, a simple method of describing the interrelationships between a great number of different industries: In the present stage of our work the statistical analysis is conducted in terms of a classification of industries which comprises 94 separate industries. The distribution of ferrous metals in the left-hand column of Table 1 is described in terms of this rather detailed basic classification. Many of the individual industries,

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though, are not included in this particular table since their purchases of ferrous metals happen to be very small.

For the purposes of the present discussion, as I have already mentioned, the 94 original industries are combined into 20 larger groups (see next page), and it is in terms of these 20 consolidated industries that the following analysis is going to be conducted.

For each of these industries, an individual distribution table, similar to that presented in the second column of Table 1, has been compiled. These 20 separate tables are combined in one large input-output chart as shown in Table 2 (see pages 14 and 15).

Arranged in a checkerboard fashion, it has as many horizontal rows as there are separate industries and industrial distributions. The distribution of ferrous metals and their products appears, for example, in the third row of this combined chart. The first row describes the distribution of the products of agriculture and fisheries. The second contains the distribution of the output of the food, tobacco and kindred products industries, and so on. This table has 20 rows and 20 columns, not counting the totals of gross outputs and of gross outlay, respectively entered in the last right-hand column and in the bottom row.

Each figure (excluding the sum totals) represents a charge from one industrial account to another industrial account. The $479,000,000 entered, for example, in the intersection of the third row and the fourth column represents $479,000,000 worth of ferrous metals absorbed by the motor vehicle and industrial and heating equipment industry. The name of the producing—i.e., the selling—industry is shown at the left-hand side of each row. The consuming—i.e., the buying—industry can be identified by the name entered at the top of the corresponding column. The sequence of the titles from left to right at the top of the table is identical with the corresponding sequence from top to bottom on the left-hand side.

We have seen that any single entry in a row represents the sales of one industry to another. It follows that it also represents the purchases by the second industry from the first. Accordingly, just as each single row describes the distribution of the sales of one industry to all others, so each column describes the purchases of one industry from all the others. For example, reading the entries in the third column, ferrous metals, we see that in order to produce the $3,887,000,000 worth of its gross output, the ferrous metals industry absorbed $37,000,000 worth of fabricated metals, $109,000,000 worth of nonferrous metals and their products, $318,000,000 worth of fuel and power and so on. Further down, the transportation cost (mostly railroad freight charges) on ferrous metals is shown as amounting to $266,000,000. The income earned, plus the tax bill—that is, the combined profit, interest, and wage bill derived by the owners, investors, and workers connected with this industry, plus taxes paid to the government—amounted to $1,043,000,000. This figure is entered near the bottom of column three in row 19.

The entries in the other columns show in the same way the cost structures of all the other branches of the national economy.

The figures in the next to the last column, households and government, show how the $85,000,000,000 spent in the year 1939 by consumers and

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Classification of Industries for the Study of Inter-Industry Relations, 1939

1. Agriculture and fishing
   1. Field crops
   2. Vegetables
   3. Fruits and nuts
   4. Horticultural specialties
   5. Forest products
   6. Dairy products
   7. Poultry and poultry products
   8. Livestock and livestock products
   9. Fishing
2. Food, tobacco and kindred products
   10. Flour and grist mill products
   11. Canning and preserving
   12. Bread and bakery products
   13. Sugar refining
   14. Starch and glucose products
   15. Alcoholic beverages
   16. Nonalcoholic beverages
   17. Tobacco manufacture
   18. Slaughtering and meat packing
   19. Manufactured dairy products
   20. Edible fats and oils, n.e.c.
   21. Other food products
3. Ferrous metals
   22. Iron mining
   23. Blast furnaces
   24. Steel works and rolling mills
4. Motor vehicles, industrial and heating equipment
   31. Motor vehicles
   34. Industrial and heating equipment
5. Metal fabricating
   25. Iron and steel foundry products
   26. Shipbuilding
   27. Firearms
   28. Munitions
   29. Agricultural machinery
   30. Engines and turbines
   32. Aircraft
   33. Transportation equipment, n.e.c.
   35. Machine tools
   36. Merchandising and service machines
   37. Electrical equipment, n.e.c.
   38. Iron and steel, n.e.c.
6. Nonferrous metals and their products
   39. Nonferrous metal mining
   40. Smelting and refining of nonferrous metals
   41. Aluminum products
   42. Nonferrous metal manufactures and alloys
7. Nonmetallic minerals and their products
   43. Nonmetallic mineral mining
   44. Nonmetallic mineral manufactures
8. Fuel and power
   45. Petroleum and natural gas
   46. Petroleum refining
   47. Anthracite coal
   48. Bituminous coal
   49. Coke and manufactured solid fuel
   50. Manufactured gas
   52. Electric public utilities
9. Chemicals
   53. Chemicals
10. Lumber, paper, and their products, printing and publishing
    54. Lumber and timber products
    55. Furniture and other manufactures of wood
    56. Wood pulp, paper, and paper products
    57. Printing and publishing
11. Textiles and leather
    58. Cotton yarn and cloth
    59. Silk and rayon products
    60. Woolen and worsted manufactures
    61. Clothing
    62. Other textile products
    63. Leather
    64. Leather shoes
    65. Leather products, n.e.c.
12. Rubber
    66. Rubber products
13. All other manufacturing
    67. All other manufacturing
14. Construction
    68. Building construction
    69. Construction other than building
15. Transportation
    71. Coastwise and inland water transportation
    72. Transoceanic transportation
    73. Steam railroad transportation
    70. Transportation, n.e.c.
16. Trade
    74. Trade
17. Foreign countries
    75. Foreign countries
18. Business and consumer services
    51. Communications
    76. Banking
    77. Insurance
    78. Business services other than advertising
    79. Advertising
    80. Services allied to transportation
    81. Automotive repair and services
    82. Repair services other than automotive
    83. Rental agencies, other than building
    84. Commercial building renting
    85. Home renting
    86. Hotels, tourist courts and camps
    87. Laundries, etc.
    88. Consumer services
    90. Motion picture theaters
    89. Other theaters, spectator sports
    91. Amusement places
19. Government and households
    92. Government
    94. Households
20. Unallocated and stocks
    93. Stocks
    95. Unallocated

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governmental institutions was apportioned among the purchases of all the different commodities and services.

This is our consolidated table. Its complete counterpart, which is not shown because it is too large to be conveniently reproduced, contains not 20 but 94 separate industrial accounts.

I use the term "account" in the precise bookkeeping sense. As you already may have observed, each separate row of figures in this chart represents the credit side, and the corresponding column the debit side of a separate industrial account. The fact that each figure in this table occupies a place in one particular row and in one particular column reflects the fundamental principle of double entry bookkeeping. Each transaction has to be entered on the debit side of one account and on the credit side of another.

INPUT STRUCTURES

Table 2 shows the inter-industrial relationships within the American economy as they existed in the year 1939. We know that they were different in 1929 or in 1932, and we certainly expect a changed picture in 1945, 1946, or 1947.

Despite such changes, however, one can discover a set of relationships, or perhaps I should say proportions, which tend to remain quite stable. These are the cost structures of the separate industries. By cost or input structure of a particular industry, I mean the relationship between the level of its total output on the one hand, and the quantities of all the different commodities and services—such as the various kinds of raw and semi-fabricated materials, auxilliary supplies, fuels and power, tools, as well as all kinds of labor—which it has to purchase and use up in order to produce that particular level of output. The purchases referred to are the amounts listed for each industry in the corresponding column of our large table. The cost structure of any one industry is best described through the statement of the amount of each particular type of cost item absorbed by it per unit of its output. The ferrous metals industry, for example, absorbed in the year 1939 $4.04 worth of nonferrous metals, $11.78 worth of fuel and power, $1.33 worth of chemicals, and so on, for every $100 worth of its net total output. (The net total output equals the total gross output minus transfer sales within the industry. For the ferrous metals industry it equals $2,699,000,000—$3,887,000,000 minus $1,188,000,000.)

I said that these relationships can be expected to be relatively stable, with certain obvious adjustments for price changes; and I might now add, predictable for the not too remote future. Indeed, if they were quite irregular and unpredictable, production planning by individual enterprises would be virtually impossible. As a matter of fact, if we tell the manager of an automobile plant that he can expect to make in the second postwar year 75 per cent more automobiles than he made in 1939, he certainly will be able to estimate how many tons of various types of steel products, how many pounds of copper, how many gallons of paints, how many tons of coal, and how many man-hours of labor of various kinds and skills his plant will have to absorb in order to reach this particular production goal.

Instead of asking him to make such an estimate, I can make one myself,

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basing it on past—but preferably recent—experience. In this case, however, advance information concerning contemplated changes in the use of various supplies and materials would be highly desirable.

What was said about an individual enterprise holds, with minor qualifications, also for a whole industry. On the basis of figures such as those presented in our checkerboard table (Table 2), it is possible to estimate the materials, labor, and equipment requirements of any industry for the various levels of its output.

FINAL DEMAND

Now imagine that we were shown not the whole of Table 2, but only the figures contained in its next to the last—i.e., 19th—column. These figures describe what might be called the ultimate or final demand for the year 1939. They include purchases of finished consumer's goods by households, and by the Army, the Navy, and all other governmental and public agencies. If we were also given information concerning cost structures—the input requirements of all the various industries per unit of their respective output—the rest of the figures in the chart could be reconstructed through a series of not very intricate computations. In particular, we would be able to compute the total outputs—that is, the total volume of sales—of all the individual industries. These figures would include the outputs and sales also of those industries, such as metal mining, whose products do not enter directly into the final consumers' demand at all. With the use of the modern punch-card system, all the necessary computations are carried through rapidly.

In actual practice, we make one modification. The entries in the input-output chart cover all types of purchases, capital equipment as well as materials and supplies. Purchases of such equipment, however, are nowhere nearly as closely related to the level of output of an industry as are the purchases of materials and supplies. For that reason, all the components of capital formation are removed from the body of the chart and are combined with the consumer and government purchases to yield a modified column 19.

Part 1 of the chart on the opposite page shows the computed effect of the final demand for various types of commodities and services on the total output or sales of the ferrous metals industries. Each bar represents the increase in the sales of ferrous metals—expressed in cents at 1939 prices—which would result from an additional dollar spent by ultimate consumers on one particular kind of product.

The largest effect on the output of the ferrous metals industry would obviously result from direct consumers' purchase of a dollar's worth of ferrous metals. The increase in sales would, as you can see, exceed a dollar because of the secondary effects of the primary expansion. The increased output of the industry would require purchases of additional amounts of various materials and supplies, the production of which, in turn, would create a secondary demand for ferrous metals. The lighter part of the bar shows the magnitude of the direct, while the darker indicates the size of the indirect effects.

Next in the magnitude of its influence upon the demand for ferrous metals and their products stands a dollar spent by the final consumers on fabricated metal products. The sales of ferrous metals which will result

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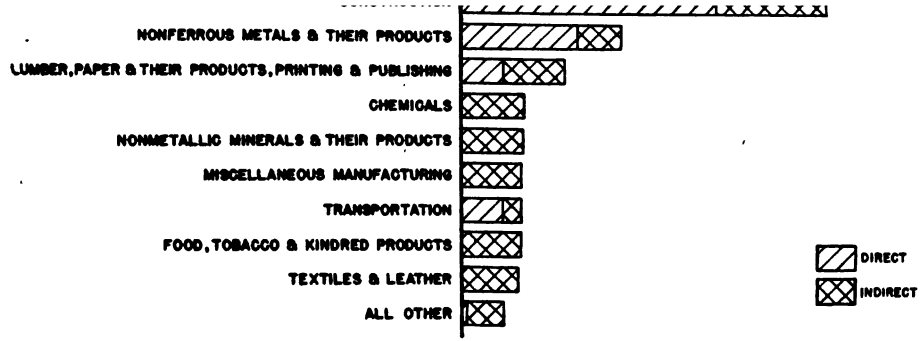
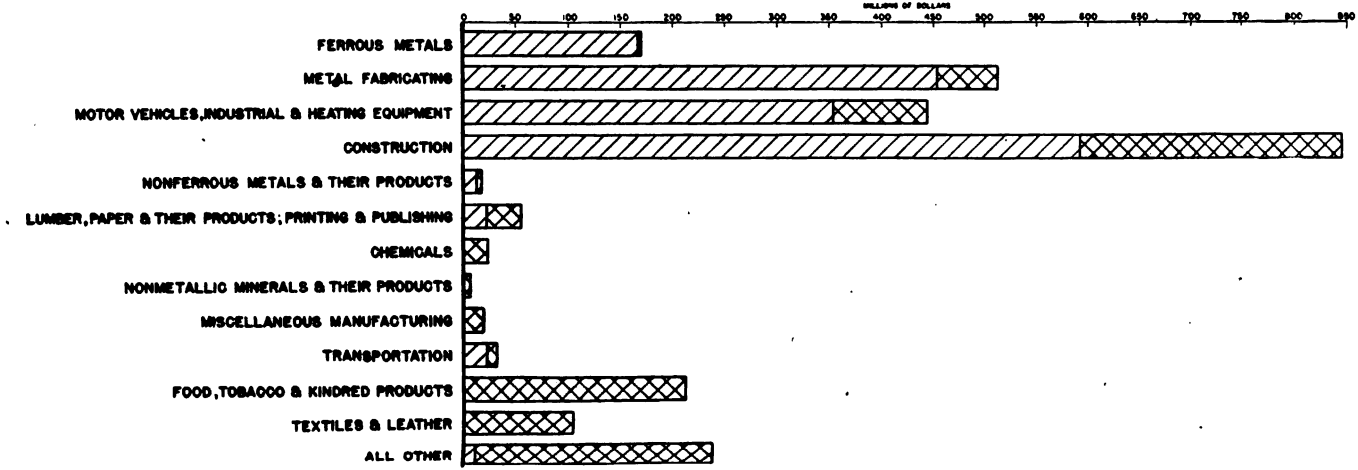


PART 2

THE 1939 VOLUME OF FINAL DEMAND FOR THE PRODUCTS OF:

REQUIRED THIS MUCH OUTPUT BY THE FERROUS METALS INDUSTRIES:



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amount to 12.1 cents. The third bar reflects the direct and indirect effect of the ultimate demand for a dollar's worth of motor vehicles and industrial heating equipment. Even consumers' purchases of textiles and leather products affect, as you can see, the market for ferrous metals. The relationship in this case is, however, mostly indirect, very remote, and the effect exceedingly small.

To compute the total aggregate effect of any one kind of final purchases on the market for one product we obviously have to multiply the effects "per dollar of final demand," as presented in the chart by the corresponding figure of aggregate final demand of the particular type. The combined consumers' investment, and governmental demand for ferrous metals, for example, in 1939 reached $168,000,000. The chart shows that every dollar of these purchases led to $1.012 worth of sales of ferrous metals. Thus, the $168,000,000 of final demand for the products of the ferrous metals industry was responsible for $170,000,000 in total sales.

This amount is represented by the bar at the top of Part 2. The bar next to it measures in the same way the effect of the final demand for fabricated metal products. In general, Part 2 shows how the 1939 output of the ferrous metals industry was actually derived from the ultimate demand for products of each of the 20 industrial groups as shown in the modified column 19 of our large checkerboard table (Table 2). As in Part 1, the lighter parts of the bars show the magnitude of the direct effects of the corresponding purchases, while the darker parts show the indirect effects transmitted through other industries.

Taking as a starting point not the actual final consumer and investment demand of the year 1939, but, say, the expected final demand for the products of various industries in the first post-reconversion year, we can perform a similar computation and thus obtain an estimate of the corresponding output and sales figures for all the separate industries included in our basic table.

The estimate of the future consumers' and investment demand itself belongs, as I have already suggested, to a different range of problems arising in connection with the analysis of the general level of economic activities. In this connection, I will only say that the detailed analysis of the inter-industrial relationships proves to be very useful in dealing with these other questions too.

TO MEASURE EFFECT OF CUTBACKS

In connection with the problem of postwar adjustments, this method was used to estimate the direct and indirect effect which the reduction of Army and Navy purchases will have on different industries. In the Bureau of Labor Statistics we are, for obvious reasons, particularly concerned with the resulting change in labor requirements for all the different branches of production, transportation and distribution.

Since the cost structures of the new munitions industries are less stable and more difficult to ascertain from past experience than the cost structure of well-established industries, we arrive at our estimate indirectly by first determining the proportion of the current output of each industry which is ultimately dependent upon non-military, consumers' and investment demand. Given the actual amount of direct civilian consumption of each of the different

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types of commodities and services, a computation similar to that which provided the results shown in Part 2 makes it possible to estimate the part of the output of each industry which ultimately depends upon this civilian demand. The difference between these computed amounts and the actual current outputs must, obviously, be attributed to direct and indirect military requirements. Should military and other war orders be canceled, the output of each branch of our economy would be reduced to the production level determined by civilian requirements alone.

A similar computation makes it possible to make a well-founded estimate of the direct and indirect effects of any given increase in postwar final civilian consumption, investment, or export demands upon the sales and output outlook for the products of all the different industries.

ADVANTAGES OF THE METHOD

At the beginning of this paper I observed that many of the currently used methods of market analysis have two inherent weaknesses.

They do not reach the bottom of the problem since they do not derive the demand for a product from a systematic analysis of the probable purchasing plans of all the various types of customers—plans which can be interpreted only in the light of a detailed structural study of all the branches of our national economy. To remedy this deficiency we have, as you see, developed an approach which makes it possible to derive the demand for the products of one industry directly from analysis of the production and sales outlook of its immediate customers, and indirectly from the study of the structural characteristics of all the other parts of the national economy, and of the final consumers', investment, and export demand.

The other weakness of current practices in the field of market analysis—and again I have in mind chiefly the studies of the sales outlook of whole industries or of special kinds of commodities or services—is their essentially "lone wolf" type of approach. The steel industry makes an estimate of future steel output; the automobile industry makes an estimate of future automobile sales; the construction industry arrives separately at an estimate of postwar construction trends; and the glass industry tries to figure out how many feet of non-shatterable automobile glass and of ordinary window glass it can sell in 1946.

Actually, we know very well that the markets for all these various products are inter-connected, and that figures at which all these separate analysts arrive should be closely interrelated, but there is no assurance that this will be the case.

A method which from the very outset enables us to take account of these complex interrelationships is bound to increase the reliability of each one of these separate forecasts.

But I must admit there is a catch to it. The approach to your problems which I have described here requires a considerable amount of factual information, a much larger amount than, for example, is required by the conventional kind of time series analysis. It took us three years to collect and to organize the statistical data on the basis of which we are beginning now to turn out our actual production, employment, and demand estimates.*

* Data currently available may be obtained from the Bureau of Labor Statistics, U. S. Department of Labor, Washington 25, D. C. A reference to this paper will facilitate the handling of inquiries

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1 RICULTURE AND FISHING	2 FOOD, TOBACCO AND KINDRED PRODUCTS	3 FERROUS METALS	4 MOTOR VEHICLES, INDUSTRIAL AND HEATING EQUIPMENT	5 METAL FABRICATING	6 NONFERROUS METALS AND THEIR PRODUCTS	7 NONMETALLIC MINERALS AND THEIR PRODUCTS	8 FUEL AND POWER	9 CHEMICALS	
950	4,998							176	
645	1,530							47	
24	-	1,188	479	861	43				
188	72	4	1,645	7	9	19	109	7	
433	306	37	611	717	12	5	137	40	
5	23	109	117	221	1,325	4	51	89	
14	137	29	70	64	6	280	6	127	
474	168	318	102	164	65	185	2,452	197	2
357	133	36	34	108	3	17	13	828	1
94	260	1	35	63	6	46	4	69	2,
66	43		105	8	.1	2		13	
54	3		195	22			1	4	
2			13	23				1	
342	70	41	24	42	8	18	821	18	
793	392	266	108	135	75	295	2,200	222	3
1,446	4,052	78	1,260	1,254	25	394	1,892	800	9
337	824	22	10	17	331	63	81	161	2
550	376	13	85	77	4	12	39	163	
5,624	3,584	1,043	2,362	3,078	721	779	4,683	1,126	2,2
1,347	1,952	536	724	2,241	599	622	1,383	819	1,3
3,745	18,923	3,721	7,979	9,102	3,233	2,741	13,872	4,927	8,4

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RY PURCHASES

11 TEXTILES AND LEATHER	12 RUBBER	13 ALL OTHER MANUFACTURING	14 CONSTRUCTION	15 TRANSPORTATION	16 TRADE	17 FOREIGN COUNTRIES (EXPORTS TO)	18 BUSINESS AND CONSUMER SERVICES	19 GOVERN AND HOUSE
583		7	167			483		4,4
156		2				269	1	15,7
			592	69		171	1	
102	16		423	77	76	409	3	2,6
16		12	1,301	380	108	544	195	1,6
1		50	144			159	6	
2	5	8	1,401	13	2	65	2	2
138	33	44	127	768	712	519	111	4,9
326	31	42	426	16		203	38	1,9
56	5	29	910	9	270	142	1,406	1,9
3,122	58	15	2		8	168	29	7,9
30	20	2	4	32	20	41	33	
117		180	16	30	55	71	373	1,9
22	4	11		828	189		251	7,9
52	31	8		138	4	103		1,9
2,928	270	550						
381	196	61		286				
83	41	16	4	73	686	2	404	15
2,821	339	812	3,940	5,467	11,023		14,516	17,9
1,634	164	564	632		5,409		3,442	
12,570	1,213	2,413	10,089	8,186	18,562	3,319	20,811	85

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Our success and the success of any one who might want to use this type of market analysis will, in a very large measure, depend upon our ability to keep these figures up to date, improving, at the same time, their quality.

The original task of assembling all the basic data has been performed by the Bureau of Labor Statistics. Private business organizations have assisted, and whenever approached for advice and expert judgment, they have been most helpful.

The statistical information required is really very simple. It certainly is of considerable interest to the business itself. I have yet to see an executive who is not vitally interested in the distribution of the annual sales of his industry among the different types of customers, or in the nature and composition of its annual cost bill.

A large part of our data comes from official sources such as the Census of Manufacture, the Bureau of Mines, etc. There can be little doubt, however, that only industry itself can fill the gaps, and correct the obvious inconsistencies contained in this type of published material.

If it actually can contribute to the solution of some of the perplexing problems of market analysis, the use which you will derive from this type of information will be well worth the effort involved in helping us to obtain it.

* * * * * *

Question: Doctor, how would you determine the size of the market for a new industry—for example, plastic molding?

Dr. Leontief: I think to try to predict it is to try to contact the people who might use plastic molding, and ask them the question, "How do you expect to use that new material?"

It is, of course, useless to ask the people in the automobile industry or the construction industry how much of various plastic moldings they will buy, because this will depend largely on what the level of demand for automobiles and for new houses will be. We will not ask so general a question but rather a specific engineering question: "How much molding do you expect to use per unit of your product?" To answer it they will not have to go into the guessing game of trying to predict how many automobiles they might sell or how high the level of building activity will be. They will answer by stating how much plastic they expect to use to make an automobile or in erecting a certain type of building. If they give us just this answer—which they can give us—then combining it with other information which we have and answers which we collect from other industries, we will be able to make a reasonable estimate of the total demand for plastics.

My feeling is that it is rather difficult to ask an industry a question the answer to which requires an estimate of future total sales, because this is what they ask us. But we can ask another question which I think they should be able to answer: What are their technical plans for using certain materials, services, and so on? We can use the information thus secured in combination with other basic data to find the complete answer to your question: What will the size of the market for this new product be?

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DETERMINING MARKETS AND DEFINING SALES TERRITORIES

A Panel Session

The Chairman: John M. Bickel, Assistant Sales Manager, The Carrier Corporation

The Panel: Dr. Philip M. Hauser, Assistant Director, Bureau of the Census, U. S. Department of Commerce

S. Morris Livingston, Chief, National Economics Unit, Bureau of Foreign and Domestic Commerce

G. A. Rebensburg, Manager, Commercial Research Division, Edison General Electric Appliance Company, Inc.

Don G. Mitchell, Vice President in Charge of Sales, Sylvania Electric Products, Inc.

D. M. Pattison, Sales Manager, The Warner & Swasey Company

Stuart Peabody, Director of Advertising, The Borden Company

NO matter what your product is, you can determine the market for it scientifically, not only by market area, not only by county, but by town, perhaps even by block, panel discussion brought out. And, it was shown, a good deal of the information you need for your estimates is obtainable from the government at a nominal cost.

GENERAL MARKETING CONDITIONS

One basic trend, which will affect all markets to a certain degree, was described by Dr. Hauser: the trend toward a relatively stable population. "Despite the current increase in the birthrate," he said, "population will not continue to grow as it has in the past; while the South and the West will show relatively rapid increases in population for some time, the North, and particularly the Northeast, will be relatively stable—population may even decline in some places.

"But a decline in the population does not necessarily mean that business activity must decline. Even while the rate of population growth is declining, the rate at which the number of families grow will continue relatively high, because the average size of the family unit is decreasing. Thus goods for which the family is the consumer unit can look forward to markets expanding at a relatively rapid rate. Further, there is a trend that may be particularly important for some types of consumers' goods; that is, the trend toward decentralization within the metropolitan areas. For a good many decades, the census has shown that cities grow by spilling over their boundaries, emptying at the center as they build up at the peripheries; and the tendency is for purchasing power to be highest at the peripheries. Moreover, there are a good many evidences that sales outlets are going to the population."

Confirmation of the statement that a slowing down of population growth need not necessarily mean declining markets was supplied by Mr. Livingston, the income expert of the panel. Prewar trends, he pointed out, showed a growth in population of .7 per cent a year, but the increase

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in the working force was considerably larger because the population is becoming relatively older.

"And entirely aside from that," he continued, "the increase in the output per worker has been considerably greater than the increase in the number of workers. On a man-hour basis, the average increase compounded from 1929 through 1941 was about 2½ per cent per year. And I see no reason why that trend should not continue after the war.

"Furthermore, the actual output in 1940, the last prewar year, was well under capacity, for we had 7,500,000 unemployed. If, we go back to the period 1935-39, which most of us like to think of as a 'normal' period, the proportion of actual output to potential output was even lower. Thus, if we are going to come anywhere near providing jobs for the people who will be looking for work after the war, we have got to have the biggest increase in output for civilians and the biggest increase in the American standard of living we have ever experienced in such a short space of time.

"Now human needs are insatiable, and the only question is whether people will have the money to buy the things they want. In 1935-39 more than 90 per cent of the families in the country had incomes under $3,000 a year, and by that fact alone any product which could not be produced for sale to a family with an income under that figure was automatically predestined to limited production for the quality trade. Today—this is a guess, since we do not yet have exact figures—at least one-third of all the families have incomes of over $3,000. The mass market is not from, say, $500 to $3,000, but from $1,000 to $5,000—and there are a great many products you can sell to a family with an income of $3,000 to $5,000 that you could not sell to one with an income of $2,000 to $3,000.

FINDING THE MARKET

More exact information on the market for the particular product may be obtained in a number of ways and the data now available from the Census Bureau makes the research man's job much easier than it was, it was shown.

"I remember," Mr. Mitchell said, "how I once tried to decide the number of potential outlets for Pepsi-cola in the City of New York. We gathered all the data the government was able to supply, and from that we figured the number was 65,000. But I was not satisfied with that. So I took a map of New York City and hired 150 men, assigning each one to a section. 'You go up one side of the street and down the other,' I told them, 'call on the first floor, the second floor, and the basement, and list every kind of outlet that could possibly sell Pepsi-cola, now or in the future.' The number, actually, totaled 120,000."

"If you did that now," Dr. Hauser commented, "you would be wasting the company's money, because the Census Bureau has prepared a series of city block maps, which would give you a good deal of that information free—or for a nickel or a dime. Similarly, the Census of Manufacturers tells a pretty good story for many industrial markets, and there are also the Census of Distribution, and the Census of Population and Housing,

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which give you a great deal of material on retail and wholesale outlets, and on population and income. Some of you, I dare say, are paying fairly fabulous prices for the same data wrapped up in blue ribbons because you don't know where to find the census data."

Some of the types of information that may be needed to define the markets for particular products were further illustrated by Mr. Rebensburg.

"Our company manufactures two types of appliances," he said, "what we call the socket appliances like refrigerators, laundry machines, washing machines, which you can plug in anywhere there is an outlet; and a group of specialty appliances, which present an entirely different problem. For instance, an electric range cannot be used economically when the cooking rate is 2.8 cents per kilowatt hour or more, and for electric water heaters it must be below 1.5 cents. As of today, 96 per cent of the 29,000,000 electrical customers have cooking rates, and only 56 per cent have an electric water heating rate. We have, in fact, determined the market for electric ranges and water heaters for every town of 250 and more in the United States, up to 1941.

"We are also definitely looking for the markets that do not exist yet. For instance, the REA plans to build enough high lines to serve 4,500,000 new rural customers. Now we must hunt for those customers, who do not now exist as consumers of electrical products, but who will be there after the war."

DEFINING TERRITORIES AND SETTING QUOTAS

Edison has also developed methods of giving the salesman definite information on the exact location of his markets. Potential is analyzed not only by states but by wholesale and retail trading areas, and combined with the information about utility company rates, as well as with a selling potential derived from a survey of buying power made by *Sales Management* magazine. "Thus," Mr. Rebensburg said, "we often find that four or five counties in a territory amount to from 60 to 80 per cent of the total sales potential. So we have told your distributors: 'When you go back into business after the war, we do not want you to go 'round to every crossroads and get the little store there. First of all, we want you to get the key dealers in the key markets.' And we tell them where those key markets are.

"Further, the company checks up to insure that the data is utilized. In 1941, the last year its peacetime products were manufactured each distributor reported to us his sales to his dealers each month. Results were tabulated, showing the states, counties, and towns, the name of the power company and the facts about its rates, and the sales possibilities; then the name of the dealer and the unit sales, cumulative and monthly, for each appliance."

Another illustration of how the matter may be approached was given by Mr. Mitchell, using electric light bulbs as an example. "Obviously," he said, "you cannot sell a light bulb unless there is a socket to screw it into, and of course, there cannot be a socket except in a wired home. Now

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figures on wired homes are part of the data you can get from the government—which will tell you how many wired homes there are in every county, probably in every block, if that is what you want.

"But that alone will not do you any good, because the number of sockets in the wired homes varies considerably in different localities. In southern Arizona, for instance, there might be an average of three sockets to a home, whereas in Greenwich, Conn., the figure might be something like 30. Theoretically, at least, the family with the larger income has more sockets in the home, which brings in the factor of income.

"For every product, therefore, you must build a weighted set of factors which will, in combination, give you a figure for the potential market in your territory. Until you get that information, you have no way of determining whether the salesman is doing a good job or not."

Mr. Pattison's company, which makes machine tools, finds that it can obtain its market data through personal contact to a large extent, since the number of customers is much smaller than in the case of a consumer product.

"Our salesman," he pointed out, "should know more about a customer's needs than the customer does himself. We have a chart system in each office, and a card for each customer. If the salesman feels that a firm should not purchase anything during the year, he indicates that fact on the card. But that does not mean that the situation will continue the next year.

"The machine tool industry has sold enough in the past five years to equal 25 years of prewar production. Therefore we are faced with a surplus problem that consumer goods sales organizations will not encounter.

"But I think that we are going to have an excellent industrial market, postwar. The only question in my mind is: Will the machines and factory equipment be supplied by the original manufacturers or will they come from government surplus stocks? We have found, in working with the Defense Plant Corporation, the War Production Board Tool Section, and various other government agencies that 53.6 per cent of the machines we shipped since September, 1939, have been purchased with DPC funds, or with funds from some other branch of the government. That means that after making due allowance for machine tools in government arsenals, and figuring that a certain percentage of the tools purchased with private funds may come back into the market, we shall be faced with a surplus of 8,000 or 9,000 of our machines when the war is over.

"But we are not sitting idly by and wringing our hands about it. There is one way to get around the situation, and that is by obsoleting those machines through better design, more productive equipment. Also, there is a big potential market for the surplus—some 60 to 70 per cent of the productive equipment in manufacturing plants today was in use before the war; and obviously that equipment is not only five years older in point of actual time, but 15 years older, because much of it has been running three shifts. There are more tools in that category in service today than there will be on the surplus list, and it is our hope that a plan to redistribute the surplus to plants with old machines can be worked out—which would raise the general efficiency of the manufacturing plant of this country by several points."

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The sales department, said Mr. Peabody, the advertising specialist of the panel, is better equipped for market analysis and for spotting the prospects than is the advertising department—although a great many advertising departments do handle that phase of subject.

"I think of advertising," he added, "as the process of registering a thought on a person's mind, whereas market analysis is mainly a statistical process. Briefly, advertising can determine what to say to them and how to say it, and what means of communication to use. And, of course, your advertising effort must attempt to parallel your potential market."

QUESTIONS AND ANSWERS

Question: How does one know what data are available from the Census Bureau?

Dr. Hauser: In an effort to conserve paper—and to avoid the criticism sometimes directed at us in editorials on the amount of wastepaper coming in to newspaper offices in the form of releases—a number of restrictions on mailings have been imposed, and most of our prewar mailing lists have been scrapped. The only way anybody can get anything from a government office today is to ask for it.

Now, the first step in asking for it is to get a list of what is published. The Census Bureau has such a list, which is revised and brought up to date monthly. Write and ask for two copies—one on which you can check off what you want, and one to keep for future reference. Then if you find you do not get the current supplements, just keep on writing. We are under OWI and general government regulations, and names do not stay put on mailing lists.

Question: Will any attempt be made to adjust the U. S. metropolitan district data, now based on 1940 figures, to population shifts that have occurred since 1940? How soon will the revision be available?

Dr. Hauser: A sample census, which will make possible new estimates of population, at least for centers with 100,000 or more inhabitants, is planned for 1945, and should be finished some time in '46. In the 1940 census, "metropolitan district" has been defined as the built-up area around a central city having a population density of 150 or more persons per square mile. Automatically the application of this criterion changes the boundaries of the centers from census to census as more built-up areas are added to the cities. Thus a certain amount of normal change will be shown, besides the changes which may occur as the result of possible redefinitions of the basic concept to meet more urgent current needs.

Question: After you have determined where your market is, and how big it is, how do you guess how much it will buy next year?

Dr. Hauser: A pretty good indication will be provided by the figures on how much was bought last year, together with the figures on estimated income. For short-run forecasting that generally provides the best index

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to the amount people will buy of a particular class of products. Forecasts of the sales of specific products are another matter.

Conferee: How would you determine a market for a consumer article by price groups—men's socks, for example? We can determine how many men there are to wear socks, but how can we find out how many will pay $1.50 a pair instead of 50 cents a pair?

Chairman Bickel: That would depend on income groups of course?

Mr. Livingston: Absolutely.

Mr. Peabody: And at a later point, I imagine, you would need a trial-and-error market test.

Mr. Mitchell: You would find out in the way we find out how many people will pay $300 for a television set, how many will pay $200, and how many $150. We go out and ask them.

Chairman Bickel: When you do go out and interview them, people have been known to say: "Good heavens, I didn't know you had to ask about those things. I thought you got the answers by statistics."

Dr. Hauser: Of course the people themselves sometimes don't know the answers. You may do better by getting the figures on the number actually buying the product today.

Mr. Livingston: If your product is off the market, you have to use some other method, perhaps correcting prewar figures to conform with increased income. But you are not always sure how people will spend the increase.

Mr. Peabody: In making opinion tests we invariably find that people say they will pay for a product than they are actually prepared to spend when the time comes.

Mr. Mitchell: There are ways of phrasing the questions. You can't just say, "How much would you pay for a television set, if you had lots of money?" and expect to get the right answer.

Question: What factors determine a consumer market for aircraft?

Mr. Rebensburg: In the case of an expensive product of that sort—aircraft will probably cost $1,500 and up—I should say the first thing to do would be to go to the market which bought automobiles like Cadillacs and Packards before the war. Also you should find out where those income groups are—the groups with $7,500 or $5,000 a year or more.

Mr. Mitchell: Couldn't you try to find out the names and addresses of all the people who have learned how to fly during the war?

Question: How can the statistical subtleties be knocked off the results of a market survey and the useful kernel be used (a) to establish valid quotas and (b) to provide a salesman's ammunition?

Mr. Pattison: Market surveys have shown us all the things that people don't like about our equipment, what they like about that of our competitors, and vice-versa. When you get a picture of that sort directly from the fellow who is going to lay the cold cash on the barrelhead, your salesman knows what to expect. He can work out a reasonable set of answers in advance, and equip himself with facts and figures to prove his points.

Dr. Hauser: Just trot out a map, as some department stores have

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done, of customers who have made purchases of different commodities, total them, and compare the results with the different income levels, the population indexes of which can be obtained from census volumes. You can expect 80 out of each 100 people in some areas to buy the particular commodity; in other areas only 20 out of every 100 will be potential customers. Then you can check your own sales against the expectations which constitute a quota you ought to meet.

Mr. Mitchell: I think you ought to remember also that you don't have to have 100 per cent accuracy. Most of the errors you make in trying to plot your figures for sales territories will not be cumulative, and they will be as large in one territory as they are in another—I am talking about weighing one average against another and trying to come up with a weighted average of factors. And suppose you are 10 per cent off? So what? You are only going to use the figures as yardsticks anyway.

Now, there are two fundamental things you can learn with reasonable accuracy. One is the total amount of product, by class of product (your product), that was sold last year—and you can give a pretty good guess as to how much of it will be sold next year. The other fact you can get is the percentage of the total you sold last year. You ought to be able to get that if your controller can add. (Some controllers can't; they can only divide.)

Now, if you can get those two factors, and get them by sales territory, you have some basis for valid quotas that you can ask your man to produce. You must, however, take other things into consideration. For instance: If you are opening a new territory, and your average for the country is 10 per cent of the business, you have no right to ask a man to get the 10 per cent the first year. On the other hand, you ought to be asking the salesman in your 20-year-old territory to do more than 10 per cent. Those are not statistical subtleties—they are common sense. And that is an important factor in interpreting market figures too.

Mr. Pattison: One other point: In industrial marketing you can get pretty definite figures from your own records on the rapidity with which equipment is replaced. We know pretty well—and I think a great many other industrial manufacturers know—that in normal times a large part of our sales are for the replacements of old units. Then, the replacement market is definitely correlated with the FRB production curve. We find that when that curve goes down below a certain point, business gets pretty dull; when it gets up to another point, replacements are in vogue, and when it gets still higher there is expansion taking place.

That is not an exact yardstick, obviously, but it is fairly accurate.

Question: How can we sell top management on the value of marketing and the value of advertising as an integral part of the company's production program?

Mr. Rebensburg: Some ten or twelve years ago we prepared quite elaborate reports, 100 or 150 pages thick. Management said, "It's wonderful. So what?" The report was put in a drawer and never looked at again. I think we can sell management if we use all available figures intelligently, and then strip them of all non-essentials, and get down to basic facts for determining a market, for selling a product. Go to management and sell

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them on the idea that what you did was right and on a sound basis. We have found it works.

Mr. Mitchell: Sooner or later your boss will call you in and raise hell because selling costs are so high. When he does, tell him: "By spending $40,000 on this market research, I can cut those sales costs next year by $65,000. And he will say, "Oh, boy—spend the $40,000!"

Chairman Bickel: What about the value of advertising?

Mr. Peabody: If the question presupposes a total neglect, or an almost total neglect, of advertising, then I think that the problem is quite simple: You have to muster enough force to get a test over a reasonable period of time. If the man you are trying to convince does not want to be convinced, you can talk yourself blue in the face for months without making any impression.

Mr. Pattison: We have worked out a plan whereby we test by units. For instance, if we want to spend $40,000, we take $5,000 and make a test case. If the test case works all right—and we try to make it large enough for the actual returns to be worth while—we go ahead at least for a year on a broad program.

Question: What should a company spend on a market research department: first for industrial goods and next for consumer goods, in percentage of sales?

Mr. Rebensburg: There is a certain fixed percentage.

Chairman Bickel: Doesn't it vary with different products and with the newness of the product on the market?

Mr. Rebensburg: Yes, definitely. It can vary considerably.

Mr. Mitchell: Take the job to be done, analyze how much it will cost to do it; then look at that figure, and if it is too big, see how near to it you can come. Then do as much of the job as you can. Don't start from how much money the boss will let me spend; start from, "Here is the job that has to be done, Boss, and this is what it will cost to do it intelligently. Now what part of it can I do?" The average for the country is what? One-tenth of 1 per cent?

Mr. Rebensburg: Two-tenths.

Question: In determining where his markets are, Mr. Rebensburg did not mention the income factor. How would this affect his survey for markets for stoves and heaters?

Mr. Rebensburg: We take total retail sales, except food sales, and use that figure as the income factor in the county or territory. We have found also that income tax returns are helpful in measuring the market.

Dr. Hauser: May I add something? If you turn to Volume 2 of the Census on Housing, you will find how many wired homes there are by income levels.

Mr. Peabody: How do you determine the kilowatt-hour cost factor with such exactitude?

Mr. Rebensburg: The kilowatt-hour rate for the water heater is 1.5 or less, which makes electric cooking or water heating comparable with other fuels.

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Question: To what extent will women continue as workers after the war?

Dr. Hauser: There are about 3,000,000 women in the labor force who would not have been there except for the war. On the basis of a very recent assumption and check, you can assume that something like 2,000,000 to 3,000,000 will stay after the war.

Mr. Livingston: I think the answer depends on the intensity of the demand for labor. If conditions are as they were in 1940, I think it is a little difficult to demonstrate that many will stay in, because it is a question of the financial incentives to hold them. And, incidentally, Phil, I think your 3,000,000 women actually include a lot of school kids—because younger workers make up a good part of the 6,000,000 or 7,000,000 added to the labor force during the war. When you say "3,000,000 women," people visualize 3,000,000 adults who have suddenly been pulled into the labor market. The fact remains that most single women who did not have family responsibilities and who were over 20 years of age were already working before the war.

Dr. Hauser: I might say I agree, Morris. The figures I mentioned are working figures, and a point of departure.

Question: Through what channels will manufacturers learn of the availability of surplus tools, Mr. Pattison? Direct through you, or through bulletins like the *Surplus Reporter?*

Mr. Pattison: The Surplus Property Administration has appointed the RFC to dispose of surplus machine tools. If you will call the RFC office in your locality, which is handling that particular problem, you can get a list.

But let me add just one word of caution. If you are told to go from Cleveland to Bridgeport, Conn., to look at a machine, spend the money for a 'phone call to see whether the machine is still available. These lists are quite often three to four weeks out of date.

Question: Have you any shortcuts for getting the names of your potential customers, and their relative size for sales and advertising purposes?

Mr. Pattison: The McGraw-Hill Company can supply mailing lists covering all the industrial plants and the key personnel in those plants. That would be one shortcut. *Thomas Register* or the books put out by many of the states on the industrial plants within their boundaries are another help. Then there are others that you could probably use. For instance, we have been able to borrow lists of suppliers to the Air Corps and Army Ordnance in certain districts. They have given us those lists to help us out in servicing certain machines, but I do not know whether that material will be available later or not.

Size is a rather difficult thing, because the Bureau of Census gives you the number of employees employed in certain industrial groups, but does not break it down by individual companies.

Dr. Hauser: We have lists of names and addresses and all kinds of information on production, size, and so forth. The only reason we cannot make the data available now is that the law requires that it be kept confidential. Perhaps the law may be revised one day so far as names, addresses, and products, and that kind of thing are concerned.

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Question: New Yorkers who have had occasion to go house hunting or apartment hunting recently are amused at the Census Bureau's persistent findings that New York's population is declining, that the city has suffered a loss of approximately 10 per cent since the 1940 census. Do you believe this?

Dr. Hauser: I might say that I have tried to find a hotel room and have almost slept in Central Park myself. But I still believe the accuracy of the figures we put out, as of November 1, 1943, which is the last date for which we have been able to issue any population estimates. Now, at that time we had all kinds of corroborative evidence to show that the New York area had lost approximately 1,000,000 people. It is also clear from indirect data available that there has been a pick-up since. We hope to have some more accurate information for you in the not too distant future.

Mr. Livingston: I think the questioner has neglected one of the other factors we have been discussing—income. Given sufficient income the same number of people will occupy more dwelling units. We talked about doubling up at the bottom of the depression, and the subsequent undoubling, and people thought of it as a temporary depression phenomenon. Actually, the doubling or undoubling never stops. The higher the income goes, the more people spread out into more family groups, occupying more dwelling units. And the more income goes down, the more they crowd up and double up into fewer dwelling units. Much of the apartment situation in New York is explained by the fact that people have more money to spend.

Dr. Hauser: Also look at the marriage rates. In New York there has been a tremendous increase in marriages, and some of the couples do not want to live at home with mama.

Question: Can we anticipate *authoritative* data on population and income shifts before 1950? In other words, could we induce Uncle Sam to depart temporarily from the decennial idea?

Dr. Hauser: Without question, I think you can. In fact, there is pending right now for submission to this present Congress possibly within the next week or two, a program which, among other things, will provide a survey of income distribution. It will probably be a relatively small one this year, and a much larger one next year. The whole trend and program in the Bureau of the Census could be, I think, expressed in the slogan: "Statistics for use rather than statistics for the record," and in practically every one of our fields we have been putting increasing stress on current statistics, on monthly or quarterly or annual data as the case may be, depending on the field, in addition to these decennial and quinquennial convulsions which give bench marks.

Bench marks are important, of course, but you can expect an increase in frequency of current information on income distribution and population shifts.

Question: Mr. Mitchell, would you establish a salesman's territory and then find the right man, or would you pick the man and then limit the territory to the mans' capabilities?

Mr. Mitchell: I would establish his territory and then find the right man, for this reason: In order to establish a territory intelligently, you have

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to find the potential. And you probably know before you hire a man approximately how much money you are going to pay him. If you set his territory first, you can find some reasonable relationship between the amount of money you are going to pay him, what his expenses will be, and the amount of potential business there is for him to get for you in his territory. But that does not mean that you may not have to change his territory later because of his qualifications.

Let me tell you one instance. There was a gentleman of my acquaintance who sold advertising. He was a damn good advertising salesman. He made $20,000 a year in commissions. But when we measured the potentials of his territory against the potential of territories held by other advertising salesmen, we found his ranked in the lower third of all the territories in the country, so far as accomplishment of potential was concerned.

My suggestion to his boss was that we cut away a third of the man's territory. In the two-thirds he had left, he made $20,000 commission the following year. Then we took away another third, and the year following that, in one-third of his original territory, he made his $20,000 in commissions. In other words, you have got to know your potentials in your territory, or you have nothing to go on to decide whether a man is doing a good job or not.

Question: The per capita sales of pipe tobacco vary in every market, very materially. How should we go about determining the accurate potential in each market?

Chairman Bickel: Maybe that comes up because of the cigarette shortages. People are turning to pipe tobacco nowadays. Anyone on the panel got any ideas on how to determine the accurate potential in each market for pipe tobacco?

Dr. Hauser: I can suggest one approach: You might array all the counties in the United States on a pipe tobacco sales basis, and then relate that to, let us say, the income distribution and the age and sex composition of the population, and perhaps other characteristics. Then you would immediately see where your greatest sales lay in terms of income and other characteristics of your population.

Question: Do census or other statistical sources provide figures of dollar volume or units by price brackets in a class of product?

Dr. Hauser: Yes, for certain types of commodities or products such information can be found in retail sales volumes. But commodity data are difficult for many types—just think of the problem of getting accurate data on a commodity basis on sales for all the things sold in a hardware store.

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The Returning Veteran

Testing in Salesman Selection

Selection and Development of Sales Supervisors

Building the Training Program

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REORIENTING THE RETURNING VETERAN TO SALES WORK

By WILLIAM C. MENNINGER
Colonel, Medical Corps
Chief Consultant in Neuropsychiatry
Office of The Surgeon General

IT IS probably presumptuous for a writer to attempt to cover a subject only half of which is familiar territory to him. In my professional field of psychiatry and in my contacts and experience in the Army, I feel familiar and relatively safe in a discussion of the veteran and his problem. On the other hand, I feel hesitant in discussing the field of sales work. Nonetheless I shall hope that on the basis of my confession of ignorance of marketing work, marketing men will regard with charity any misconceptions I may have of the field.

We might, for the sake of facilitating the discussion, divide the subject of reorienting the returning veteran to sales work into its three natural partitions. Very practically, we might first survey the veteran and his problem, hoping that we may the better recognize what he is, and what his attitudes, his handicaps, and his assets are. Then, very briefly, we might survey the salesman and the requirements for his job as they may apply to the man who returns to us from the Army or Navy. And last, we might discuss the sales executive, the catalyzer who needs to have knowledge about the returning veteran and plans for fitting him to sales work.

The Problems of the Veteran

The most important service that I may render you is to direct your attention to, and thus forewarn you of, some of the things that we may expect to find in the way of attitudes and behavior on the part of our returning soldiers. A considerable number have returned to civilian life already, the great majority of them having been discharged for some type of disability. Sooner or later, and we all hope sooner, a considerable number of men will be dismissed from the Army. However, at this time the war is a long way from

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In World War I, Colonel Menninger served as a second lieutenant in the Infantry. He was commissioned a lieutenant colonel in the Medical Corps on November 10, 1942, and was appointed neuropsychiatric consultant to the Fourth Service Command. In December, 1944, he was made Chief Consultant in Neuropsychiatry in the Surgeon General's Office. Recently he received the first Lasker Award, given by the National Committee for Mental Hygiene for outstanding service in psychiatry as related to the war.

Author of numerous contributions to scientific journals, Colonel Menninger is also the writer of the *Skipper's Handbook*, official handbook for leaders in Sea Scouting. He is a member of the National Executive Board of the Boy Scouts of America.

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being finished, and nothing is more damaging to the morale of our soldiers who are fighting and dying in their foxholes than for us at home to assume that the war is about over. Nonetheless, it is the far-seeing group which is hopefully looking forward and planning for the time when our soldiers will come home, different men from when they left us, and it will be our job to attempt to help them fit into civilian life once again.

How long will it take the soldier to become a civilian again? Certainly we can be sure that it will be more than a matter of changing his clothes. The Army has found from experience that it requires approximately a year to convert a civilian into a soldier. We must anticipate that the readjustment from soldier to civilian will also take time and will be accompanied with difficulty that will be increased or decreased by the man's own desire, his own efforts, and by the cooperation that you and I offer.

THE SENSE OF BELONGING

In the first place we must remember that in the Army he belonged to an organization, he was part of a group in which there was high morale and definite ideals. Membership in it made him something of a hero. Even though he was a rookie, he belonged. The need for the sense of belonging, of being a member of a group, is an extremely fundamental psychological desire. It may be possible for the alert executive to meet this problem more easily than the family or community, for the man can be made to feel security in his new organization about which he has had no illusions. Every soldier as he leaves the Army will be leaving his unit, his own gang, and for a time he may feel very much alone, something of an outsider. He will have lost touch with what has happened in his home, his job, his community, during his absence. No matter what his previous training or job may have been, he will have to review his knowledge and retrain his skill.

MUST GIVE UP BEING A VETERAN

We recognize that, for the good of the social order, we must help the man get over being a veteran. He will have to live in what is for him a new world—that of a civilian—without the support or the guidance or the public understanding that he enjoyed in the Army. Just as he gave up a great deal in the way of economic, social, and family security when he went into the Army, similarly, when he leaves it, he is going to be giving up very tangible forms of security that he had established. Only as he is able to re-find this sense of security in his community, in his industrial, professional, or occupational group, only as he can reestablish himself in his family, in his former interests and among his friends, can the man give up being a veteran and again become a full-fledged civilian.

MAY SEEM OLDER

There is no doubt that the Army experience will change every man who has had contact with it for a year or more. We know he will be very different if his experience was exceptionally exacting, as it is for every combat soldier and for every man who has been on an isolated outpost for any period of time. We can anticipate that one or two years of such experience may make

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him seem many years older. Certainly he has crowded far more vital experience into that period of time than into any other similar period in his life, and more than those he left behind could know. He very literally "will have been places and seen things." The integration into our population of some 5,000,000 or more men who will know Persia first-hand, or Burma, Algiers, Saipan, or Scotland, will have a considerable impact on us. Most of us Americans are quite provincial. We do not know the geography even of our own county. This veteran group of world travelers, then, may be somewhat disturbing to our complacent provincialism, but we should be sufficiently intelligent to recognize this as a stimulus to us and an asset to the veteran. It is to be hoped that we can rise to his level, grasp and profit from the broader vision of life that his experiences have given him. This is but one of the many changes *we* must make in this mutual job of readjustment.

NOT ALL HAVE SERIOUS PROBLEMS

In my opinion, not all our returning veterans are going to have serious difficulties in adjustment. There is little doubt that many will have only minor ones, but we must anticipate that a large number may have major adjustments. During two or three years overseas, every soldier carries with him his memories of home, the family, the town, the job, and the boss. The chances are that those memories become more rosy and glorified, possibly distorted, with the passing of time. They certainly will not include the changes that have taken place during his absence. We may be sure that in some instances he will have a rude awakening when he gets home and finds that the reality is not as he fancied it.

SOLDIER'S LIFE DIRECTED FOR HIM

Furthermore, fully to understand our share of this job of aiding readjustment, we should have as clear a picture as possible of our veteran's Army life and experience. For two, three, perhaps four years his life was directed for him. Practically every movement was in response to orders. His food, his clothing, his pay, were automatically taken care of. The regimented disciplined life which is essential for the maintenance and success of an army is, paradoxically, the opposite of the life he had always led, and which he wants to lead again and, supposedly, has been fighting to maintain. On leave or furlough there may have been almost frantic effort to steep himself again in the pool of life as he had always known it, an attempt to crowd in all the liberty and fun, excitement, and pleasure that he could find. Back on duty, he looked forward to the time when he could return to that life and again be his own boss and decide his daily schedule. However, when this time does come, he finds the return not easy.

Many men will have suffered, suffered physically, and many will have suffered emotionally. Certainly many will have had emotional experiences which can never be adequately put into words. Perhaps some of our returning soldiers will want to tell us a lot of things. Many others will tell us nothing. But in any case, they never will be able to tell us about the things that affected them most. If they could describe them in words, we could not really understand because we have not experienced them. We can only give a sympathetic ear as the occasion presents itself, and never should we attempt to pry. Vet-

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erans will sense our inability to understand them fully, and with this, we must anticipate certain strange attitudes, perhaps certain illogical behavior. This can be more pronounced in the case of those who may not be able to tell us how they feel, because they will not be able to understand themselves. It is not difficult to understand, then, why they may flounder in their attempt to reestablish themselves.

MAY EXHIBIT RESENTMENT

Heading the list of these attitudes that we must be prepared to expect and deal with is an inability to find satisfaction immediately on return to the civilian situation. In many instances there will be definite dissatisfaction. Sometimes this may be expressed directly, perhaps more often indirectly, and then distorted and projected to us. They will feel that it is we who manifest a lack of understanding, perhaps even that we don't appreciate them and what they have done. This feeling of the lack of appreciation, certainly, can be expected in some instances to approach resentment; despite whatever provision of help is made locally or nationally, a certain number will feel that it isn't enough, that they have been mistreated, that they have been discriminated against, and that their family or their community or their state or their government owes them much more than it has given them.

SOME POSSIBLE BEHAVIOR DIFFICULTIES

Just as in all psychological maladjustments, we see not only ideational and emotional disturbances, but we see behavior difficulties. We must anticipate that in a small but definite number of this group there will be varying degrees of restlessness associated with the dissatisfaction. They may rationalize that the home is not what it used to be and want to leave it, or that the job, or the boss, or the community has changed, and so they will move on. We must anticipate that many of them will change jobs and very possibly communities several times. Dissatisfaction may lead to other types of behavior. Some of the men discharged because of physical or mental disabilities will tenaciously hold on to their symptoms, not only as an unconscious aggressive act because of their resentment, but also in order that they may justify their feeling of being unappreciated, as if they were saying, "See what the war did to me—see what you did to me." Others we may expect to become more seclusive, to avoid social contacts deliberately because each new one further probes their sense of inadequacy. Others may loudly and repeatedly voice dissatisfaction, resentment, perhaps even defiance. We must anticipate that, in their struggling, some will look for various avenues of escape, in futile attempts at solution, which may momentarily take them far afield from their real interests or abilities, excursions into unknown ventures that promise big compensation quickly; perhaps a few may try excessive drinking.

BENEFITS FROM MILITARY SERVICE

May I remind you again that it would be quite erroneous to imply that this will be a universal picture. Almost surely it will apply to a minority, and a small minority, but the very size of our Army leaves no doubt that the actual number involved will be considerable. On the other hand, we must

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also recognize that our veterans will come back with many assets, their direct and indirect benefits from their Army experience will be tremendous. Their experiences even though grueling and harrowing will be priceless memories. They will always have the glamor of having directly participated in so noble an undertaking. They will have new and useful concepts of discipline, of teamwork, of loyalty, learned the hard but unforgettable way, through experience. A very large number will return with a tremendously valuable asset of experience in leadership, and we shall fail flagrantly if we do not capitalize on it. Not only is the experience itself of inestimable value, but the qualifications which made leadership possible include many of the most important qualifications for salesmanship. Many of these men will return with new skills. The Army has provided specialized training in hundreds of different fields for thousands and thousands of soldiers, and even though the veteran may never make his livelihood from these skills, they add to his versatility. No matter whether a man is a salesman or a psychiatrist, the more versatile he is and the greater his fund of knowledge, the better he can do his own job.

The Problems of the Salesman

Having attempted a word picture of the veteran and his problems, I should like to set sail bravely in what is for me a much less charted sea, namely, the problems that confront the salesman. My own Army experience makes me feel a little safer in this field than I did previously, since as an administrator, a considerable part of my function is the selling of ideas. Obviously a salesman must have a particular type of personality; and unless a man can get satisfaction and keen enjoyment out of certain features of the salesmanship job that are ordinarily extremely distasteful to the average man, then, certainly, he has no business being a salesman.

THE SALESMAN AN UNDERDOG

Every salesman is confronted in every contact with delicate interpersonal relations in which he is the underdog. In some way he must delicately, and nonetheless gingerly, get his foot in a door, being simultaneously sufficiently aggressive to gain entrance and sufficiently timid not to scare his victim. He is always working in a foreign country and not on his home territory. Selling is always a one-man job, so that he is simultaneously the subject and object, the producer and victim of his own fluctuations and moods. Because his job is out of the office, he has comparatively little supervision, no one to counsel with, to be encouraged by, or to blow off to. There are not very many proverbial mousetrap makers in the woods, and so most salesmen must work hard and travel far to cover their territory. For most, the job is a pressure one, not only because of its inherent character but because in most companies it is whipped up by the home office through some kind of a contest. The fact that the salesman has no one to whom he can blow off is a special handicap because few types of employment require more control of aggressive responses. He cannot swear back at the prospect who swears at him; he cannot even chide the cheeky little receptionist who knows that all salesmen are unwelcome to her boss.

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The rewards of the salesman on the economic plane are not often commensurate with the punishment that he must take. The very nature of his job separates him much of the time from his home, from his social outlet, from his avocational interests. While he is on the road doing his job he is always on parade, and when he is not with a prospect he is alone, very much alone.

To attempt to dovetail the problems presented by the veteran and the special personality qualifications of sales work as they have been presented here is nigh an impossible task. Obviously the seriously maladjusted veteran has little or no chance to succeed at sales work. Previous experience as a salesman may be of tremendous help, but one is not successful in lifting himself by his own bootstraps, and the veteran cannot immediately erase or change the effects of his Army experience or his personality.

The Sales Executive's Responsibility

Even though one cannot play a facile game of chess with these two sets of characteristics—the veteran and the salesman—the sales executive faces the practical problem of attempting to harmonize the two insofar as it is possible. Certainly some generalizations can be set forth on the basis of the phychiatric point of view, which may be of help. We may anticipate that sales executives can be divided into three groups. First, there are those who assume there is no problem, see no problem, and will fail to recognize any problem. Then there will be a second group which will have a misguided enthusiasm, perhaps see problems where there are none, and anticipate evidences of maladjustment in every returning veteran. This same group may hope to do the impossible in the way of treatment. And finally there is a third group which may handle the situation intelligently, but in some cases may be too sympathetic and at a loss to know what might best be done.

PATIENCE AN ESSENTIAL

Regardless of his understanding, the executive's most important tool in all veteran adjustment problems is patience. Again I remind you that it will take time to make a soldier into a civilian, and that during the adjustment period we must be prepared to expect restlessness, impetuousness, irritation, disappointment. If the executive responds with annoyance and counter-irritation, he will likely aggravate the maladjustment or lose the salesman. Patience, then, is not only a virtue but an essential to success.

Depending on the size of his organization, the sales executive may or may not be able to have professional guidance in this and other personnel problems. Even relatively small organizations have found that the investment in a personnel department pays tremendous dividends. On the other hand, we must assume that many small organizations, and even the divisional or regional offices of large concerns, cannot maintain a professionally trained man to provide counsel. Of necessity in such instances, the sales executive himself must attempt to serve in this capacity. Where this is the case, a valid assumption applying to every sales executive is that ability in this field does not depend on some sort of intuitive knowledge that is given to all men. It can only be obtained by study, by reading, and preferably by receiving some actual training, and using that in gaining experience.

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Even though professional aid may not be accessible, the executive may obtain a great deal of help in minor problems by utilizing available assistance. Many of the veteran's problems may relate to his privileges as a veteran, and for this reason the executive himself should be familiar with the GI Bill of Rights. In many problems, help can and should be sought from the Veterans Bureau, from the Red Cross, from the veterans' service organizations.

There are four major points which should receive the thoughtful planned consideration on the part of the sales executive in attempting to reorient the returning veteran to sales work: selection, training, counseling, and the providing of compensations.

SELECTION

Before we even attempt to reorient the veteran, obviously our first job is the correct selection of the men whom we are to attempt to reorient. In all probability, there will be plenty of candidates. There is evidence in industrial experience, and even stronger evidence from our experience in the Army, that selection is a major deciding factor in our success. With a poor selection our business suffers, we suffer, the man suffers. We have various aids to help us in this process of selection, and the mere fact that we need a man or that a man wants to do a particular job is in no sense the valid basis for his selection.

We have learned that probably the most helpful step in selection is the personal interview which evaluates the man's personality. Obviously this can best be handled by a person trained for the job. The most important information to be obtained is the social history and background of the candidate. By "social history" we mean the man's lifelong adjustment. We are interested in a complete picture of the man and his living, not merely in his status at the moment. We are interested in his family, their adjustment to him, and his adjustment to them. We are interested in his childhood, his educational experiences, his successes and failures, his vocational training and experience, his job history, and in this case every investigation should certainly include his experience in and reaction to his military service. We have found it desirable to document this material in every way possible. In the Army hospital we utilize the American Red Cross to obtain social histories from relatives, friends, or the employer. It is assumed also that every candidate should have the advantage of a complete medical examination.

Equally important are various types of selective tests to evaluate personality and adaptability. It is not necessary to present them in detail here except to point out that there is little doubt whatever that one's personality can be very effectively evaluated through what are known as "projective tests." The principle underlying all these tests is that the man projects and interprets himself through them. In the British Army every officer candidate is given what is known as a "word association test," with certain key words introduced which, on the basis of long experience, indicate very definite trends in the personality. Another type of projective test known as the "thematic apperception test" is a series of pictures about each of which the man is asked to make up an explanatory story. Various leaderless group tests are performed in which a group of six or eight candidates, all strangers to each other, are given a group task and must work out the solution jointly.

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One man will stand out as too aggressive, another as too passive, a third as an exhibitionist, a fourth as a good follower. Certainly a sales executive should feel it essential to become familiar with the various tests available, their value and significance, and then arrange for their effective application to all candidates.

A special word about the veterans who are discharged for disability, particularly those with neuropsychiatric disabilities. There is no reason to assume that the average man discharged with a neuropsychiatric disability is in any way impaired for civilian responsibility. His discharge may have occurred only because he was not of a type that could accept the regimentation and the discipline necessary in Army life. Others may have had a perfectly normal background but under the stress of battle, which we know will break any man if it is continued long enough, developed symptoms which incapacitated them for further battle service. The very factors in either case that made the man ineffective in the Army might actually enhance his acceptability in any lone wolf type of job—any one man job.

TRAINING

Under the heading of training, the sales executive should certainly include what in the Army we have called "orientation," a combination of attempting to help the man understand what the job is all about, the need for it, and, equally important, why he should effectively carry it out. I am assuming that he will have some organized training as well as on-the-job training. No matter how good a man may be in any field, new developments are constantly being made, and the progressive executive will schedule frequent refresher courses. In situations where the men work individually and very much alone, as in the field of sales work, such refresher courses, the sharing of mutual experiences, the demonstration of various methods, should have a special value. Inseparably linked with this responsibility for training are the responsibilities for counseling.

COUNSELING

In my previous remarks I attempted to point out that the veteran may feel he is not understood. If we are obviously making an effort to help him, this problem will be met in part. From another point of view, the salesman, because he has no one with whom to discuss his problems, needs frequent counsel, if for no other reason than to permit him an outlet. He needs a listener, someone to whom he may tell his story. Not only does this have an important cathartic psychological value to him, it offers the sales executive an opportunity, particularly in the case of veterans to determine success or failure at adjustment. Only through frequent counseling will the executive or his delegated personnel department have any opportunity to recognize the early signs of maladjustment.

COMPENSATIONS

The fourth and last major concern of the sales executive in attempting to reorient the returning veteran to sales work should be the deliberate and detailed provision of compensations for his salesmen. This is desirable not

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only because the man may be a returning veteran with his own minor maladjustment problem based on his new insecurity, but because it pays dividends in any field of human activity. Success depends pretty largely on the ability to feel secure and to obtain satisfaction. This security must cover the financial, social, and family status; and a threat in any of these phases of life may make for failure in a job. Part of that security comes from direct or indirect satisfaction of sufficient quantity. If this is lacking, there is failure. In the Army, a man becomes a non-effective; in civilian life, he is prone to make a try at something else.

There are some specific suggestions relative to the provision of types of compensation. It must be recognized that since first, a salesman has a pressure job, he needs frequent opportunities to escape from that pressure. All of us can function under stress for a time, but if it is too great or lasts too long, inefficiency and eventual failure result. We have recognized that the salesman must be absent not only from his office and the companionship of his associates there, but even more important, from his home and his normal social and avocational outlets there. It will be the smart executive who deliberately provides special social privileges and opportunities for him. Keeping in mind that we want him to feel that he belongs, providing him with special groups within the office organization may help—social groups that have a special interest in common whether they be golf or dramatics. It is the wise executive who plans special rewards and special recognition, who makes frequent use of citations. Any device which permits the man to feel that he is sharing in the responsibility, in the success, in the decisions, is an important incentive and a source of satisfaction. Many organizations feel that it pays big dividends to develop group health insurance plans, life insurance programs, home ownership and cooperative marketing opportunities.

And last but most important in the field of compensations is the personal concern and interest of the sales executive in his men. Fundamentally, in every organization, whether it be in the field of sales work, or in a company of infantrymen, or in an industrial group, the executive is the father and the salesmen are his children. Often entirely unrecognized by the salesman, there may be a reaction to the executive on a lifelong pattern of that toward the first authority in his life, his own father. Each salesman will react to the others of the group as he early learned to do toward his real siblings. Consequently the executive has the responsibility of attempting to be the understanding, sympathetic, fair, personal father, and at the same time he must recognize the evidences of sibling rivalry, jealousy, and many other evidences of unhealthy, as well as of healthy, family relationships.

In conclusion, I may summarize by saying that I have attempted to point out what we may expect in our returning service men, reiterating that only a small percentage will show serious difficulty in readjusting, but because of the size of the Army the actual number may be considerable. It is the aim of all of us in all walks of life to help these men in their return to the civilian role. Your opportunity of aiding those who will be returning to sales work, or who may be trying it out for the first time, is a challenging one, filled with many extremely interesting problems. Deserving of your special consideration should be the selection method, the development of training and orientation techniques, the recognition of the importance of frequent counseling,

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and, finally, the provision of compensations that meet not only the need of the veteran, but equally the need of the salesman.

* * * * * *

Question: A man who holds a blue discharge is reemployed. For over a year he does satisfactory work, then goes to pieces and takes sick leave, with a diagnosis of neurasthenia. Can he obtain medical assistance from the Army? If so, how can we assist him in obtaining it?

Colonel Menninger: The entire resources of the veterans' facilities are available to all veterans except those who hold dishonorable discharges, and the "blue discharge," of course, is not classified as dishonorable. It would be my impression that the first attempt to help such a man should be through some community agency and then, if necessary, the nearest veteran's facility could be contacted. While the Veterans Administration is doing a good job, it, too, has a manpower shortage; it has not yet completed the building program from the last war—so you can appreciate that it is under terrific pressure.

Question: Will the element of danger, the pitting of mental and physical assets against wind and weather that is a part of sail boating and motor boating, serve as sufficient outlet for emotional steam to make such activities an important part of the reorientation program in communities where facilities are available?

Colonel Menninger: That brings up a very fundamental principle in all types of maladjustment. Either in the Army or in civilian life, much of our personal distress is caused by frustration, which is directly associated with resentment. To find a suitable, approved outlet for that resentment is undoubtedly beneficial—we are all familiar with the expression, "I am going back behind the barn and do a little whittling." Swatting a golf ball, punching a punching bag, and sailing a boat are types of outlets that are regarded as sublimations for the aggressive drive—and far more practical than punching the other fellow in the nose. So by all means encourage the sail boating, golfing, tennis, and every other outlet through which people may blow off steam.

Question: In your opinion, is it better for the veteran to have a supervisor who is himself a veteran?

Colonel Menninger: The answer, of course, is yes. But I want to add that this doesn't mean that the man who hasn't been a veteran can't supervise veterans intelligently. Obviously, if you and the man with whom you have to deal have gone through the same experiences, you can talk his language and reach him more easily. The fact that you haven't gone through the same experience, however, should not prevent you from showing good judgment and managing the man successfully. You may even do better than some of those who must rely too heavily on their own experience.

Question: Where can we obtain Army records on discharged veterans? How complete are such records?

Colonel Menninger: Under present regulations, the veteran's own

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physician may write to the hospital from which the man was discharged and obtain his hospital record. But sending complete records to prospective employers would not be practical; moreover, it would violate a fundamental tenet of the American democratic system, since it would be an invasion of the veteran's privacy.

How complete are such records? The answer will vary in the individual case, but I think every one of us—fundamentally I regard myself as a civilian —has a high respect for the medical work done in the Army; it is equal or superior to that of the average general hospital. So whatever records you do obtain will certainly represent the opinion of experienced men.

AN APPRAISAL OF PSYCHOLOGICAL TESTING IN SALESMAN SELECTION

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THE current interest in scientific personnel techniques has made many sales and marketing executives take a fresh look at methods used in the selection of salesmen. The phrase "scientific techniques" is disturbing and exciting. It has a certain halo of distinction and precision that appeals to most of us and it suggests that, at long last, there may be some helpful and dependable solution to the problem of picking the right man for the right job.

Actually the "scientific techniques" referred to so glibly are useful only if they are undergirded by a fresh point of view, for the sales executive must free himself from the habitual acceptance of personal judgment as infallible. There must be a replacement of superficial observation and prejudiced judgment by precise and accurate examination, measurement, and appraisal. There must be a new acceptance of, and demand for, factual evidence and valid measures.

Considering that so few companies in the United States use psychological tests in selecting sales personnel, it is strange that these tests should constitute the most controversial of all current subjects in sales selection. Unfortunately, the controversy is characterized by reckless and intolerant statements of extremes. Tests are considered the scientifically perfect selection device—or

AUTHOR'S NOTE: An excellent address on this subject was delivered by Dr. Morris Viteles, of the University of Pennsylvania, before the 1941 Marketing Conference of the American Management Association. His observations, which apply to the present-day situation, have been published in AMA's *Marketing Series No. 45.*

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tests are the product of fraud and quackery. The voice of moderation is rarely heard. Critical and thoughtful study is rarely undertaken.

PRESENT STATUS OF TESTS IN SELECTING SALESMEN

Sales executives and personnel men who want to use tests as selection tools are not concerned, of course, with the same problem as academic men and research workers. Their concern is not with the levels of intelligence, degree of specific abilities, or extent of personality development. Their concern is with the kind of ability that their particular sales situation demands, with the specific skills that must be acquired, and with the personality assets that fit their organizational pattern.

Tests used in personnel selection are attempts to measure the key demands of types of work in a particular company or work situation. Sometimes these demands are related to general alertness, at other times to capacity to notice details, errors, flaws, and weaknesses, and at still other times they are concerned with the essentials demanded of special kinds of contact situations. In any case the situational demand rather than the ability level must decide the worth of the test as a selection tool.

Quite frequently a test has been found to have considerable value in selecting employees for types of work other than that indicated by its label. Examples are the McQuarrie Mechanical Aptitude Test, parts of which have been found to be effective in selecting office workers, and the Minnesota Test for Clerical Workers, which has been found of value in selecting many types of factory workers. Labels for tests and test batteries are often determined by *a priori* judgment rather than by experimental data.

It is necessary for me to report that the contribution psychological tests have made to the improvement of personnel selection for specific jobs at white collar or professional levels has been rather meager. And there is, at present no impressive evidence to support a belief that the immediate future will witness any substantial increase in accomplishment. This is harsh judgment and one that will not meet with ready acceptance here. It is a carefully reasoned conclusion, however, and is based on a comprehensive review of what has been done to date and on the statements of responsible psychologists engaged in research in sales selection.

Results of merit and validity in this field, as in most other areas of work,

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THE AUTHOR The leadership given by Forrest H. Kirkpatrick in the field of personnel administration is well known to many members of AMA. He has long been a proponent of intelligent planning and research in this field, and he has implemented his own convictions by building a sound program of personnel administration in the RCA Victor Division of Radio Corporation of America.

Mr. Kirkpatrick has been a college teacher and administrative officer, a consultant on personnel and labor relations, and since 1941, a personnel executive with RCA. Last year he also served as Consultant on Personnel Administration for the Department of State. His academic and professional training included undergraduate study at Bethany College and graduate study at the University of Dijon, Columbia University, and the University of London.

Under Mr. Kirkpatrick's direction considerable research work has been done at RCA in the study of tests and other selection instruments for sales personnel. An article on the subject by Mr. Kirkpatrick, written in collaboration with Daniel J. Bolanovich, appeared in a recent issue of *Educational and Psychological Measurement.*

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come as the result of long and careful research and development. Many business and sales executives are not willing to pay the price in time, money, or patience for the basic research work that this task requires. They are determined to believe that there is some quick and certain treatment for all ills. In some instances they buy psychological tests with the same faith that their grandfathers bought herb remedies from the traveling medicine show. There is no quick cure for the ills of personnel selection. This fact need not dampen our interest or our willingness to do patient and careful experimental work.

Experience to Date

Various psychological tests have already been tried for selection of different types of workers. Manipulative and adjustment tests have been widely used with factory workers. Intelligence tests, clerical tests, and interest tests have been used with office workers. In general, one might conclude that they are a valuable addition to other selection processes when properly used. This does not mean that all tests, or other so-called "psychological devices" are of value. There are certain situations in which some tests are of no use, and there are some tests which are worthless as selection tools in almost any situation. The sales executive who wants to use tests for personnel selection must know how and when to use tests and then how to check their validity.

It is not good enough to be told that a particular test is 85 per cent effective in picking good salesmen. One must find out what is behind such a statement. Eighty-five per cent of what? How much better than methods used before? How many people were tested? If only five or ten, this figure is not very reliable. By what standards were men judged successful? One organization making such a claim was found to mean that it had selected 85 per cent of successful men by tests, but that the tests were much less able to point out unsuccessful men. This is comparable to traditional interviewing methods. Top-notch men are often easily identified at any time because they "sell themselves." It is much more difficult to identify poorer salesmen who appear to be top-notch.

Likewise, the validity of a test or test battery cannot rest on the fact that one or several sales managers are quoted as being enthusiastic about it. A man may become enthusiastic about anything, especially if he has been given credit for sponsoring the idea. For instance, there is the case of the sales manager whose company used an aptitude testing service, and who became one of its biggest boosters. The reason was that, without seeing his salesmen, the testing organization had been able to describe them rather accurately, and had made one or two outstanding predictions which came true. However, upon being asked what plan he had for following up predictions made by the tests, he said, "None." He never knew how the predictions turned out, or whether they were any improvement over his own hunches. Here then is only evidence by presumption—not by facts.

DARTNELL CONCLUSIONS

The Dartnell Corporation recently conducted an intensive one-year study of aptitude testing for salesmen. The psychologists who participated in that study were unanimously agreed on the following five points:

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1. There has not yet been developed within their knowledge any one standard test dependable for all companies.
2. It is outside the realm of probability that such a test can be developed.
3. No tests are yet devised, or likely to be devised, that can safely be administered and interpreted by the sales manager himself.
4. There are no available tests dependable for measuring general sales ability or personal qualities applicable to all types of selling, and
5. Aptitude tests can be valuable *if*
   (a) They are to be used only as an aid to other selection methods.
   (b) They are chosen with special reference to the needs of the particular company involved.
   (c) They are interpreted by a psychologist experienced in the use of such tests for salesmen.

With all five points, I am in full agreement. Psychological tests can make some helpful contribution to personal selection, and their worth need not be discounted. But the increment of effectiveness they add is small and can be completely lost through improper use or failure to consider them in the light of other information obtained concerning job applicants. If the tests are to be of sound value, those conducting the testing not only should be competent in this psychological field, but should have first demonstrated the merit of the tests by validity studies within the company. Let me repeat again: (1) Tests should be used only as aids to other methods, such as expert interviewing; (2) they should be especially adapted to the company involved; (3) and they should be interpreted by well-trained psychologists.

EXTENT TO WHICH TESTS ARE USED FOR SALESMEN

When we look at some of the published reports of work on psychological tests, we find that not many careful research studies have been reported in the field of salesmen selection. This is true in spite of the fact that the use of such tests is obviously on the increase. In a survey made by RCA at the close of 1943—one year ago—reports were collected from 66 large companies throughout the country concerning their techniques of salesmen selection. Of the 66 companies replying, seven (or about 10 per cent) reported the use of some tests. Another five (or 7½ per cent) said they were experimenting with tests. The Dartnell Corporation in a similar survey contacted 18,000 companies from coast to coast and found 2 per cent now using aptitude tests. While the Dartnell survey contacted many more companies, the fact that the RCA survey was restricted to larger concerns may account for the difference. Two per cent of 18,000 would mean that 360 companies are now using aptitude tests for salesmen.

Factual information related to the effectiveness of these tests is very difficult to find. One reason is that most companies are not in the habit of evaluating personnel selection processes. Another is that many of them could not do it even if they so desired. They hire a man here and there, and relative ratings of success are difficult to make; hence attempts at evaluation are likely to be unreliable. Personnel work has suffered from all kinds of charlatanism and paternalistic sprees because there has been little attempt to

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evaluate results or to assign the work to men with professional training and competence.

STUDY COVERING 1,600 SALESMEN

Two psychologists, A. W. Kornhauser and R. N. McMurry,[1] in 1939 completed a two-year study with 1,600 salesmen in seven cities. They found that by setting critical scores, on a weighted application blank, a personality test, and a standardized interview, they could reduce turnover rate by 23 per cent and increase the amount of sales per man by 6½ per cent. Then they combined records for length of service, amount of sales, and ratings by supervisors to grade salesmen in three categories: good, mediocre, and poor. They followed up these records for men who had taken the personality tests and filled in the application blank, and found that by taking only those applicants who had made above a certain mark on these two devices, they could have eliminated 31.8 per cent of those who later proved failures. By keeping this requirement they could have refused jobs to only 6.7 per cent of those who later were good salesmen and 22.4 per cent of those who proved mediocre.

It is easy to imagine that savings would result from a 23 per cent reduction in turnover or a 6½ per cent increase in sales per man. And, too, what headaches would be saved by eliminating, before they are hired, 32 per cent of the poorest salesmen! Please bear in mind that these figures are enlarged somewhat when you add to them findings from interviews and personal investigations. On the negative side, Kornhauser and McMurry also gave intelligence tests to 350 men. They found there was no appreciable relationship between intelligence scores and success as salesmen. This does not mean, of course, that salesmen do not have to be intelligent!

As far back as 1922, D. B. Goldsmith[2] made a study of the responses of sales applicants to application blank questions. After follow-up of 25 applicants, he was able to give statistical weights to such responses as age, marital status, club memberships, etc. Then he scored 502 application blanks with these weights and found some startling results. Of those who scored below four, only 4 per cent succeeded as salesmen; of those who scored from four to eight, 17 per cent succeeded; and of those who scored above eight, 53 per cent succeeded. He decided to use four as the minimum score which a man would be allowed without flat refusal. This would have eliminated 54 per cent of the subsequent failures and kept 84 per cent of the successful people.

SOME CORRELATIONS

The probable effectiveness of tests under consideration can always be checked by giving them first to all salesmen currently employed. The test scores can then be compared with records or ratings of the salesmen's performance to find any relationships that may exist. It is the usual practice to give those already employed more tests than will actually be used in selection. Thus the most effective tests, or test items, may be retained and the

[1] Kornhauser, A. W. and McMurry, R. N. "A Scientific Procedure for the Selection of Salesmen." PERSONNEL, Vol. 15, No. 4, 1939.
[2] Goldsmith, D. B. "The Use of the Personal History Blank as a Salesmanship Test." *Journal of Applied Psychology*, Vol. 6, pp. 149-155, 1922.

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less effective eliminated. If no reasonable relationships can be shown, they should all be eliminated. Relationships between test scores and performance are usually expressed statistically as coefficients of correlation—sometimes referred to as coefficients of validity.

For ordinary factory work, in which success qualities are much easier to identify than in sales work, our working correlations with tests run about .60 to .75. The best correlation coefficient we have seen in the sales field is .57, with sales ratings and recommendations of the Klein Institute for a small group of specialty salesmen. The Klein Institute also shows a correlation of .50 for a mixed group of employed salesmen with their predictions and performance. A correlation of .56 was obtained by J. L. Otis of Western Reserve University last year, based on scores for two tests and a weighted application blank. These data are taken from recent correspondence with the people mentioned. Another correlation of .40 was reported for the Life Insurance Sales Research Bureau between its Aptitude Index (weighted personal history items and a personality test) and amount of sales.[3]

There is some reason to believe that one of the most effective psychological measures for predicting success in selling is the Strong Vocational Interest Blank. This test is scored with various scoring keys, each of which indicates a type of interest pattern for a given occupation. E. K. Strong[4] found a correlation of .37 with scores on the Life Insurance Salesman key and amount of insurance written by agents taking the test. This test is scored in A, B, and C categories. He also examined the scores of the best salesmen and found that in the group writing over $100,000 insurance per year were 85 per cent of the men scoring A on the test; 44 per cent of those scoring B, and only 25 per cent of those scoring C. The test also contains keys for other sales and related occupations, which add to its effectiveness in predicting sales success. Almost every test battery used for salesmen selection includes the Strong Vocational Interest Blank.

CHECKING VALIDITY

Such studies are mentioned to give us some guideposts as to expected validity coefficients. When we consider the use of tests, it is important that we ask where they have been tried out, and what relationships with sales success have been obtained. Or we should have someone try them out on our sales force and see how large the correlations with selling ability are for these men.

The established method of testing the validity of a test is to find the extent to which its results correlate with other criteria . If the most desirable among the workers currently employed make a much higher score than the least desirable, and a considerably higher score than the average worker, the test is likely to be valid. The extent of its validity is indicated by the coefficient of correlation with accepted standards. That coefficient ranges between +1 and —1; the closer it is to +1 the more valid is the test. Very rarely will a test be found to have a higher validity coefficient than .7, and quite frequently a test is adopted as part of a selection battery when the correlation is as low as .2 or .3. A correlation of 0 indicates that the test gives no better than

[3] Kurtz, A. K. "Recent Research in the Selection of Life Insurance Salesmen." *Journal of Applied Psychology*, February 1941, pp. 11-17.
[4] Strong, E. K. "Interests and Sales Ability." *Personnel Journal*, December, 1934, pp. 204-216.

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chance results; increments of that give correspondingly increasing estimates of promise.

RELIABILITY

It should also be mentioned here that no test can be valuable unless it is reliable, and reliability is estimated in several ways. One is to give the same test to the same group twice and to compute the correlations, by correlating the two halves of the test, by correlating the odd and the even items, and by comparing the test with another test that purports to measure the same ability. For a test to be valid, the correlation should be .8 or better for the first three of these measures. The last measure is rarely used in industrial situations, and when used is of very little value.

ESTIMATE OF PROBABLE ERROR

Some estimate of the likely error of the test results should also be made because no test gives an infallible measure of a person's ability. Test results are converted into statistical values. These values are determined by the caliber of the group on whom the test was standardized. The group may or may not have been representative of the group of workers for whom the test is to be a selection tool. The probable error indicates the extent to which the score that a person makes in a test may deviate from the true score that he can make. For example, if a person scores 68 and the test has a probable error of four scale points, his score may be anywhere between 64 and 72. It is for this reason that absolute scores are rarely used; instead, the average tester uses a range or boundary, scores within which indicate possible acceptability.

Critical scores are usually established whenever tests are used for selection purposes. They indicate the score range below and above which candidates are unacceptable. These score ranges are peculiar to each organization. Those which are acceptable in one company may or may not be acceptable in another. It is to be noted that there is both an upper and a lower limit to these ranges; scores under the lower limit indicate lack of sufficient ability or knowledge to meet the job demands, while those above upper limit indicate too much ability or knowledge. Such limits are important when working with personnel selection for the factory.

PERSONALITY TESTS

There are numerous types of personality tests in use today. The predominant traits of salesmen measured by them are the tendency to dominate situations and the tendency to mix with many people socially. The amount of success achieved in predicting selling performance through the measurement of personality varies greatly. The important point is that *some* companies have found some relationships. Some companies have tried such tests and have been surprised and disappointed by results.

Tests that have shown significant results have been concerned primarily with contrasting pairs of qualities, such as ascendance-submission, introversion-extroversion, and depression-elation. Of these the A-S test and different forms of the I-E tests are the most widely used. The A-S Test was

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developed by G. W. and F. H. Allport, and standardized on college students. Later it was adapted to business needs by R. O. Beckman.[5] In that form the test has 27 questions, of the problem-situation, multiple-choice type, and different business positions. The following two problems will illustrate its nature:

A salesman in a man's shop takes great trouble to show you a quantity of merchandise; you are not entirely suited; do you find it difficut to leave without making a purchase?

Frequently .....

Sometimes .....

Not at all .....

Do you feel nervous or ill at ease in the presence of a superior in the business world, the president of a large corporation, for example?

Frequently .....

At times .....

Never .....

Each type of reply is given a weighted score, on the plus side to indicate aggressiveness, and on the minus side for submissiveness.

Beckman concludes, after having used the test in a number of organizations, "The test is particularly useful for personnel directors engaged in recruiting." A study of the differential value of this test was made by Stevens and Wonderlic[6] in a large finance company. It was given to 201 applicants for positions, 141 branch office managers, and a few representatives in other positions.

These results are slightly disquieting; one would expect clerical workers to be less aggressive than salesmen, but they average eight points higher; the results from 201 applicants did not give a normal distribution; there was no pronounced modal class interval; and the correlation between the test results and results from the Otis Test of Mental Ability was high enough (.30) to indicate that there was an overlapping in the abilities measured by the two tests. This confusion of results characterizes most tests of personality when given to different groups and makes job analyses in terms of the particular demands of each situation a necessity before one can be dogmatic concerning the type of person who best meets the demands of a particular situation.

Batteries of personality tests have been tried with varying degrees of success. Lovett and Richardson[7] studied the relation between actual success of salesmen in the Procter & Gamble Company and the scores they made on a social intelligence test, selected parts of the Thurstone Personality Schedule, Strong's Vocational Interest Test, and a dominance-submission test. The report shows a higher yield of usefulness from these personality items than from the mental test items.

On the basis of these results they recommend that "personality tests

[5] Beckman, R. O. "Ascendance-Submission Test, Revised." *Personnel Journal*, 11:387-392, 1932-1933.
[6] Stevens, S. S. and E. F. Wonderlic. "The A-S Reaction Test, A Study of Beckman's Revision." *Personnel Journal*, 13:222-224, 1934-1935.
[7] Lovett, R. F., and M. W. Richardson. "Selecting Sales Personnel." *Personnel Journal*, 12:248-253, 1933-1934.

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have a prominent place in selecting for sales ability." Newman L. Hoopingarner offers a comprehensive scheme[8] for the evaluation of physique, mental alertness, skill, aptitudes, and temperament. His test includes measures for estimating the following traits: impressiveness (using 30 situations), initiative (24), thoroughness (two timed tests and an information test), observation, concentration, decision, adaptability, leadership, organizing ability, expression, and knowledge. His technique has been shown to be of value in selecting salesmen. In one sales organization, his analysis led to a prediction of 79 per cent of the successes and 59 per cent of the failures, whereas the supervisors' predictions for the same salesmen were no better than chance. In another study of 15 new salesmen he selected five misfits, four of whom "failed utterly" while the fifth failed because of temperamental difficulties; and of the ten successes, six were predicted, two of whom became supervisors and one of whom became consultant to a trust company.

The difficulty with the technique used by Hoopingarner is its dependence upon the personality and interpretative ability of the person who administers the tests; that, in general, is true of many so-called batteries of personality tests. The most promising method seems to be that used by Lovett and Richardson, in which the items in personality tests are evaluated in a manner similar to those found to be of value in trade and aptitude tests.

A Program for the Future

It is evident, I am sure, that there are serious weaknesses and inadequacies in personnel selection methods. Psychological tests do not offer the help that so many advocates claim for them. The unfortunate thing is that very few sales executives and company officials understand that *all* the machinery related to personnel selection must be rebuilt. The crude and careless procedures now in use are costly and ineffective. The old technique of getting an application filled out, reading letters of recommendation, and looking the man over in an interview has long been found wanting. The cost of the turnover—that tragic cycle of hiring, training, starting him out, then firing, hiring, training, and starting out another man—is dreadful to contemplate.

JOB ANALYSIS

The development of sound procedures and techniques for personnel selection must begin with a careful analysis of the job to be filled. This means that we must find out what the salesman for each particular company and product must do and what skills and abilities he must have in order to do his work successfully. Such an analysis must also give us some clue as to the most desirable personal traits and characteristics. From such an analysis we are able to build a frame of reference as to the type of men and the conditions that will carry some degree of certainty of success or failure. Such a frame of reference must be built for each company—sometimes for each product line or sales region. Standards of success used by other companies, even in the same kind of business, are not necessarily proper and valid for our company.

[8] Hoopingarner, Newman L. *Personality and Business Ability Analysis*, McGraw-Hill Book Company, Inc., New York, 1932. See also Babcock, Harriet, "Personality Analysis and Improvement," *Personnel Journal*, 13:84-91, 1934-1935.

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RESEARCH

The next step is to develop a careful research program so that selection procedures can be made more dependable. This involves the determination of criteria of success. What are the factors to be accounted most important in a salesman? Do we use number of sales, dollar volume, units of sales, new customers, or more sales per new items in the line? It is an important determination because, in the end, our aim is to find the men who will achieve that particular result. There must, of course, be some agreement throughout the organization as to what, in the end, constitutes "sales success." Against that criteria our selection methods must finally be checked.

EXPERIMENTATION

In working toward better selection methods, the third step involves active experimentation with a group of salesmen already in the organization or a group of the new and untried. The various tests that are to be used as the experimental test battery must also be selected. This should be done by a competent psychologist and on the basis of the job analysis study. There should be some logical relationship between the kind of tests to be tried and the job that is to be filled. The administration of the tests, the determination of relationships between test scores and criteria of success, and the analysis of test items should be handled by the psychologist. It is not necessary to think only of tests already on the market, for in many instances it will be necessary to think of constructing new tests or scales.

Verne Steward points out in his helpful book, *Analysis of Sales Personnel Problems*,[9] that the problems of setting up adequate research studies in the sales field are many and varied. Such difficulties are: First, sales jobs differ so much that success standards are hard to apply; second, not many organizations have a sufficient number of comparable sales jobs upon which to make studies; and third, the importance of research in this field has not been driven home to those who have the authority to sanction adequate studies of sales personnel. Consequently, many people who have limited notions of personnel work and confidence that psychological tests can contribute to wise sales selection have attempted studies on incomplete data.

In spite of the fact that psychological tests have not measured up to the high claim that some people have made as to "scientific techniques" for selection of salesmen, let us not be discouraged or despairing. The few accomplishments cannot be set aside as being without meaning or import. There seems to be no evidence of relationship between intelligence test scores and sales ability. Existing personality tests seem to be of some value in the selection process. Interest tests have been widely used, and there is hopeful evidence of their usefulness for certain sales situations. There is clear need for more thorough and careful research studies with more attention given to determining criteria for success, and to the specific needs of each sales situation.

STUDY OF OTHER SELECTION TOOLS

In our enthusiasm to experiment with psychological tests and test batteries, we have neglected to study the whole range of problems which present

[9] Verne Steward and Associates, Los Angeles, 1943.

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themselves in the personnel selection process. Likewise we have neglected to study other selection tools. Much attention should be given to the application blank and to the use of information which such a blank reveals. Careful research work is needed to develop the right kind of an application blank and determine the use that can be made of information on family background, work experience, interests, and hobbies, and so on, which such an instrument can bring together in an orderly and meaningful fashion.

Research should also be undertaken that will lead to better interview methods and results. The rating scale as a tool in personnel selection should be studied. In our experimental work, more emphasis should be given to longitudinal studies, work histories, and social background. Personnel research in such areas may give us a lot more help in selecting the right kind of salesmen than anything we have yet seen.

NO EASY ANSWER

The more elusive problems are scarcely recognized—and rarely studied because we rush too eagerly toward a quick and easy answer. For the selection of sales personnel—as for a hundred other problems in personnel management—we want to believe in magic. Dependable answers come from careful research, and so few are willing to pay that price. There are some, of course, who do not believe that such research has any place in personnel management; some who are skeptical of any results that may come; and some who, because of inertia or myopia, are content to let matters rest as they are. Research in the area of human relations is difficult. One must move cautiously, avoiding the error of attempting to measure the unmeasurable. Yet difficulty is no reason for being content with arm-chair opinions and fictitious conclusions.

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THE SELECTION AND DEVELOPMENT OF SALES SUPERVISORS

By R. F. LOVETT
Manager of Personnel Research
The Procter & Gamble Company

EARLY in 1918, Captain Garthwaite, a Civil War veteran of the Vincennes, Ind., Volunteers, was comparing his military experience with that of his grandson, who had recently been commissioned a second lieutenant in the Tank Corps. The older veteran plied the younger with questions and listened attentively to his account of the care used in picking candidates for the officers' training school and the rigorous training which mercilessly weeded out many. While obviously proud of his grandson's success, he held nothing but contempt for the methods used in selecting and developing officers for World War I.

Drawing himself up to his full six feet two, he explained how it had been done in his day. The colonel simply lined up the volunteers and picked the taller men, designating the tallest as captain, the others as lieutenants. There was no doubt in the captain's mind of the efficacy of this method. This simple expedient had given him his captaincy, and he had come through the war with nothing more than a slight musket wound in one leg.

If he were alive today, the great care in selection and preparation of men for their responsibilities as military leaders would be in even sharper contrast to the methods of his day.

Methods of picking leaders for sales organizations have likewise undergone change. Many companies have given thought and attention to the problem, and progress has gone well beyond the World War I era. Few of us, I dare say, honestly feel, however, that we have little to learn. World War II's lessons in leadership discovery and development give promise of real benefit to those interested. There is evidence that some organizations plan to be ready for the postwar period with improved methods in this sphere as in others. We owe it to our companies, of course, but also to the returning veterans, to avoid failures due to poor placement and inadequate training.

Acknowledgment is here made of the material supplied for this paper by 15 of the country's prominent sales organizations. They gave freely, and their help is appreciated. Credit, however, for most of the content of this paper should go to the Procter & Gamble management, through whose efforts

THE AUTHOR R. F. Lovett graduated from the University of Illinois in 1921. In 1923 he received his M.A. in the Division of Cooperative Research, Carnegie Institute of Technology.

Since 1923, Mr. Lovett has been in charge of sales and personnel research at The Procter & Gamble Company and its subsidiaries. The high reputation which Procter & Gamble's personnel policies command is matched by the great interest in and attention to personnel matters shown by its management. For a quarter of a century, the company has pioneered in applying scientific research methods to sales personnel problems, and the direction of this work has been Mr. Lovett's responsibility.

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over the past 25 years a plan of selection and development of sales supervisors has evolved. None in our company feels that our plan is complete. Rather, it is a growing body of knowledge which is subject to continued improvement.

This discussion will be confined chiefly to basic considerations rather than to detailed procedures. Time will not permit a thoroughgoing discussion of the methods of selection and development of sales supervisors, although some will be included to illustrate reference to general methods.

The sales supervisor here considered is the immediate boss of the salesman. He is the first line of sales management and may have anywhere from five to 15 salesmen under him. He operates out of a branch office and reports to the sales manager of that office.

The Supervisor's Importance

It has been suggested that I emphasize the importance of the supervisor, since it is said there is the danger that he may be the "forgotten man" of the sales organization. To many that may seem strange, but for those who may not have appraised his importance, I submit the following:

To anyone who recognizes that the chain of management is no stronger than its weakest link, the supervisor's importance is self-evident.

Those interested in having an organization serve as a two-way channel through which instructions, information and ideas flow freely and with growing effectiveness, both down from top management to the salesman and up from the salesman to top management, will not underestimate the importance of the supervisor.

If one needs further proof of the supervisor's importance, perhaps a look at what has been happening in certain industries to his counterpart in production, the foreman, will lend insight. Champions sooner or later appear in support of the so-called "forgotten man." The sales supervisor needs no other champion than an enlightened top sales management which gives him all reasonable help and opportunity for his development, which regards him as sales manager in his territory, and which gives him commensurate authority, responsibility and reward.

The Sales Supervisor's Job

As a basis for the selection and development of supervisors, a thoroughgoing analysis of the job is essential. Supervisors and their managers are the best qualified to supply this analysis. In fact, their participation in making and perfecting the statement of functions, duties, and methods is essential. Group discussions to improve and approve the analysis are recognized by many companies as ideal training for the management, and make for solidarity of purpose. However, a job analyst should be responsible for this study, preferably a man who has been supervisor. The analyst secures analyses from the managers, and works with the supervisors, observing their operations. He may spend as much as a week each with several supervisors to gain correct perspective of the various elements involved.

The purpose of a sales supervisor necessarily stems from the over-all

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purpose of the organization of which he is a part. For example, if the purpose as contained in the articles of incorporation is "to manufacture and sell food products at a profit," all that he does should contribute to that over-all objective.

In the analysis of the job, the more detailed statement of functions and duties prescribes the particular part he plays in achieving the over-all goal. One such analysis gave the following as the functions of the supervisor:

Maintenance of the Organization

Periodic appraisal of personnel
Keeping salesmen satisfied
Preventing financial irregularities
Terminating services of salesmen.

Selection of Salesmen

Recruiting
Interviewing
Testing
Physical examination
Securing references
Using employment forms
Making employment decisions
Selecting strong salesmen
Filling vacancies without delay.

Training Salesmen

Mastery of training principles and training program
Training of new salesmen
Continued training of older salesmen
Training managerial prospects.

Application of Company Plans to His Organization

Giving intelligent consideration to territory conditions
Accepting responsibility for making organization's quota
Effecting territory coverage
Planning sales presentations
Handling local advertising and special promotions
Making long-range plans.

Supervision—Through Direction, Motivation, and Control

Direction

Giving instructions
Announcing company plans
Getting action on new plans

Motivation

Setting the example
Showing interest—encouragement
Using suggestions in handling men
Conducting contests
Stimulating through letters, telephone, and telegraph
Handling difficult situations
Reprimanding when necessary.

Control

Making spot checks in field
Analyzing reports of salesmen
Recognizing when things are not right
Quickly correcting a situation that is out of line
Conducting meetings
Holding conferences with salesmen.

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Administration

Reporting on general business, competitive activity
Personal activity and expense
Making estimates
Making recommendations
Maintaining records
Controlling expenses.

General Duties

Personal handling of certain accounts
Maintaining company good will
Planning own work
Personal relationships with his men
Proper attitude toward job, men, company
Knowledge of job, company policies, products
Personal improvement.

Such an analysis of the job suggests the traits and aptitudes required of candidates for the position of supervisor and provides the basis of the plan for their development. When there is added to this an empirical study of the characteristics which distinguish the successful supervisor from the unsuccessful, the groundwork for selection is laid.

Selection of Supervisors

The selection of salesmen is the starting point for the selection of supervisors, and this presupposes standards for the selection of salesmen. However, merely the selection of strong sales prospects is not sufficient. The supervisor must not only be a successful salesman; he must also have managerial qualifications. To select salesmen with only a hope that some of the more successful will make supervisors leaves too much to chance. If we want to assure the development of quality supervisors, we must see to it that we start with salesmen who possess the latent managerial qualities capable of development.

The entire process of initial selection includes careful appraisal through multiple interviews and evaluation of information and data from the application blank, from previous employers, and from the results of the tests. The successful applicants, however, have only established that they are worthy of a trial as salesmen, and must prove by their sales records that they merit further development before any special consideration is given.

ESTABLISH STANDARDS

In any organization of size, a careful examination and study of the characteristics, background, education, work history and sources of the supervisors and salesmen should reveal what distinguishes the supervisor from the salesman. Moreover, if a reliable criterion of degree of success of supervisors is available, those characteristics which distinguish the more successful supervisor from the less successful will provide selection standards for upgrading the supervisory force.

A study of this sort, if cursory or superficial, may yield little or may be very misleading. The work involving use of tests and statistical methods must be directed by a skilled psychometrician, that is, a psychologist who has

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specialized in test construction and measurement techniques. Production men will have none but skilled chemists and engineers establish the quality standards for the materials used in making superior products. Human beings, who are the raw material out of which an organization is built, are far more difficult to analyze. The ablest scientists in the field are none too adequate for the task.

Standards thus established for selection of supervisory prospects vary between organizations, and even between different departments of an organization. However, in one Procter & Gamble department some of the more pertinent qualities, traits, and aptitudes which the supervisors possess in a greater degree than salesmen are:

Verbal or linguistic ability
Verbal fluency
Number and quantitative skills
Speed of decision
Deductive reasoning
Liking for leadership
Flexibility in thinking
Spatial ability.

Tests by which these or other significant factors are gauged, having been scientifically constructed and validated, are then used by the field management for decentralized recruiting and employment.

SOURCES OF SUPERVISORY TALENT

From the ranks of salesmen comes all supervisory talent. Men who appear to have managerial ability are selected for the sales assignments from many sources. Standardized tests help the management recognize supervisory talent from whatever source it may come. A recent study has shown that men who seek out the company, that is the voluntary applicants, comprise the largest single source. These are men who apply because of their knowledge of the company or because they have friends or relatives there. Other candidates are obtained through contacts with the trade, through want ads, and through schools.

Many of the supervisory prospects are men who on initial employment did not appear to have supervisory possibilities yet whose growth and capacity convince the management that they deserve recognition and the chance for further development. The steady progress of these men up through the organization builds morale as nothing else will.

QUOTAS OF SUPERVISORY PROSPECTS

To assure an adequate supply of development prospects, quotas are necessary for which the branch sales manager is held responsible. For an established organization, roughly two prospects for every member of the sales management, from supervisor up, should be adequate. For an expanding organization, the ratio should be higher. At any one time, ideally, the prospects should be at various stages of development. If there is to be a steady flow of these men to the supervisory level, they must be recruited annually. Failure to bring in the normal number in any year or two creates a

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situation which is hard to correct. Quick development under "forced draft" all too often results in poorly equipped supervisors and often in complete failure.

The second phase of selection of supervisors begins with the first job assignment and is a progressive process which continues throughout their development.

Development of Supervisors

In considering the development of these men into supervisors, it is well to repeat what was just pointed out, that it has been found impossible to isolate selection from training. Experiences of our schools, and recently of our armed forces, have emphasized that the selection process operates all through the training, Some men seeking commissions are "washed out" at various stages in officer candidate schools. Every new course and skill to be mastered is a selection device. Regardless of how much care is used in the original selection of candidates, it has been evident that as they progress up the scale from simpler skills to more difficult ones, or from one kind of instruction to another, some men reveal limitations not previously detected. Unfortunate though this is, we feel that any sound development program recognizes this fact and sets up procedures to gain from the process. Thus, on the one hand, an all-out effort is being made to help the man succeed; on the other hand, his progress is being periodically, if not continuously, appraised.

The term "development of supervisors" suits the process better than any other, we feel. "To develop" means, according to Webster:

To promote the growth of
To evolve the possibilities of
To make active—something latent
To advance—to further
To expand by a process of growth
To mature.

All these contribute to our concept of the development of supervisors. Thus, development emphasizes what happens in the man, rather than what is done to or for him. R. R. Deupree, the president of our company, has often reminded the management and all engaged in training work that in the last analysis *training is helping a man to help himself.* Educators recognize this when they say that all the school or any other educational agency can do is to stimulate and help the learner to learn. If this is true at lower levels, it is even truer in the development of supervisors, where initiative and self-motivation are essential. There are methods, however, which speed up and stimulate this growth, and it is management's task to discover them and use them adroitly.

METHODS OF STIMULATING GROWTH

Man learns by doing. Active participation in the work is the best stimulant to growth. For this reason, all training and development of supervisory skills, we believe, should center in the immediate job assignment. Aside from occasional small discussion groups to impart technical sales information or for the training of trainers, classroom work has no part in the prospective

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supervisor's development. Assignment to work, followed by thorough training on the job by one skilled in training methods, permits making the most of this ideal learning situation.

Sales Assignment—The first opportunity for development of the basic skills of sales supervision comes through assignment to a sales job. Here, with normal sales training, the candidate has a chance to prove that he can master sales work. He cannot go on without this mastery of the basic selling techniques. Later responsibilities of training men on the territory, showing them how, seeing and correcting their faults and establishing a reputation among them as a skillful leader worthy of their respect and following, demand the development of a high degree of selling skill.

Sales Coaching—The prospect's sales training, typical of that for all salesmen, involves intensive field training by a trainer and study of his job manual, with assignments and quizzes. A monthly organ containing sales aids is provided, regular field supervision sales meetings are held; and bulletins, and suggested lists of books on selling and merchandising available through the company library are furnished to the prospect.

Appointment as Sales Trainer—When he has had enough experience and his selling proficiency has reached the stage where he can coach new men in selling, the prospective supervisor is assigned the responsibility of breaking in men. However, he must also have shown promise of further development by his ambition and industry, as well as by his attitude toward his work and the company. This training responsibility, which takes only part of his time, is added to his selling responsibility in his territory.

As a sales trainer, he is given instruction in training methods. He has a training guide of detailed procedures and is given suggested reading lists on training methods, the psychology of learning, habit formation, etc. Since the responsibility for training rests with the supervisor, the latter delegates to the sales trainer only the "breaking in" phase. The supervisor, in his regular work with the salesmen, is able to appraise the character of the training job accomplished and is in a position to help the sales trainer eliminate faults and improve skill.

Branch Office Sales Assistant—If training skill is developed satisfactorily and the man's growth continues, his next move is to the post of branch office sales assistant. Responsibility for his appointment to this post rests on both the field management and the home office. In this work, the prospective supervisor's responsibilities broaden greatly. Gradually the branch manager assigns and coaches him in the advanced training of salesmen, in recruiting salesmen and preliminary interviewing, in testing and appraisal of applicants. His tasks will eventually include appraising salesmen with whom he works, making field audits of salesmen's operations, checking on territory coverage, assisting in initiating new sales plans, analyzing reports, improving sales methods, handling correspondence, writing bulletins, submitting necessary reports and estimates. He will be personally responsible for sales to a limited number of large accounts, will assist in controlling expenses, and handle assigned subjects at sales meetings.

At this stage personal coaching by the manager is the heart of the prospective supervisor's development. Job manuals, covering most phases of his work, also guide him. His reading now progresses to the sales management level, and book lists are provided regularly. A monthly company bulletin pre-

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pared for supervisors and managers, which contains a digest of the best current thinking on sales supervision and management, merchandising and trade developments, supplements his reading of books and trade journals.

Successful performance of this assignment, as well as of the previous one, calls for unusual skill, for the prospect has no authority over those with whom he works. He must achieve results by reason of his authority as an expert, rather than by any authority vested in him by the management. If he can prove that he can get results from the salesmen by suggestion and by setting the right example, by showing the men he can help them become more productive, by demonstrating a friendly interest in them and their problems, then in our estimation he has gone a long sea mile toward proving he has supervisory ability. For if he can do this without any authority over the men, there is little possibility that he will have to resort to authority when it is vested in him. As we all know, few men of real ability in management resort to their authority to get results. It is never necessary for the resourceful leader.

Promotion to Supervisor—On successful completion of the branch office assistant assignment, the prospective supervisor is ready for appointment to a supervisory position. If the training has been skillfully planned and carried out, he has acquired most of the basic skills, is familiar with his salesmen and with the trade and territory for which he is to be responsible. His manager knows his strengths, and his weaknesses if any. It remains only to delegate to him the full responsibility and authority for his organization and to coach him further in stimulation and motivation of his group, in handling of problems of compensation and employment, in planning his territory and organization development, and other similar responsibilities. To aid him in his new task, he again is given a job manual covering most aspects of his work. Contained in it are the best methods of successful supervisors. The company's sales management bulletin reaches him monthly, and reading lists are regularly provided to widen his opportunity for self-improvement.

His manager continues to work closely with him in his further development as long as he remains a supervisor.

CENTRALIZED RECORDS

To control the selection and development of an adequate number of supervisors, top sales management needs to maintain a complete inventory of managerial prospects. This may contain records of their qualifications, job assignments, production records, ratings by their supervisors, and all other pertinent data valuable for planning their development and appraising them.

DECENTRALIZATION BUILDS STRENGTH

It is clear that the success of such a plan as that outlined depends, first, on the selection of adequate managerial talent in every unit of the organization and, second, on the skillful training and coaching of the men, by every supervisor and manager. With these responsibilities decentralized, a high degree of ability is required of each supervisor and manager. This not only calls for, but we believe it builds, a more resourceful and capable organization than when these responsibilities are centralized.

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Question: Do you believe in having senior salesmen supervise juniors? Does the plan generally work, and does it tend to increase or decrease the efficiency of either?

Mr. Lovett: That plan is used rather effectively in one of our departments, a small one. The senior salesmen there are usually the promotional type who are going on to supervisory jobs, so it is well for them to have the experience. In the greater part of our organization, however, we do not use senior salesmen as supervisors.

Question: How much difference is there between the compensation of the salesman and that of the supervisor?

Mr. Lovett: I will have to give an approximation: anywhere from 75 to 100 per cent. While the starting salaries of some of the supervisors are not so high, the average, I think, would fall in that range.

Question: How much importance do you attach to willingness to work and application to the job in selecting supervisors? We ourselves will accept average selling ability, provided the man's record shows his industry is 10 per cent above the average.

Mr. Lovett: Well, you know some men succeed by reason of hard work, others by reason of great skill and talent, and still others by a combination of the two. Some people say that certain men strive to become managers because they are essentially lazy and want to be in a position where other people work for them; it is even said that the desire to have somebody else do the leg work is a good thing in a prospective supervisor. However that may be, if industry is lacking in the supervisor, it is usually lacking in his men. Industry is a very important trait in the supervisor, and we find it a major factor in his success, although it is, of course, difficult to measure.

Question: Where can samples of weighted application blanks be secured?

Mr. Lovett: If the weights are to have any significance, they must be established for your own organization. I suggest you read Burtt's *Principles of Employment Psychology,** pages 430 to 436, for illustrations and a discussion of methods of establishing weights, also Viteles' *Industrial Psychology,*** pages 179 to 186.

Question: Can a company develop its own tests to measure the ability and aptitudes needed to get its particular job done?

Mr. Lovett: I should say yes, if the organization is large enough, if you are willing to spend the time and the money, if you are willing to go out and get professional skill, and if you don't expect tests to do the whole job of selection.

You have been selecting men for years without using tests. Don't turn aside from your old methods, and say: "Now that we have tests we will discount the interview, the application blank, the man's previous work history, and all the rest of it." You are casting aside something that is good, something you have used over the years. Hang on to all that is good; then, if you can get some additional good from the tests, use them too.

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* Harper & Brothers, New York, 1942.
** W. W. Norton & Company, Inc., New York, 1932.

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BUILDING THE SALES TRAINING PROGRAM

A Panel Session

Chairman: **Sterling W. Mudge, Director of Training, Socony-Vacuum Oil Company, New York; and District Director, Training Within Industry, War Manpower Commission**

The Panel: **Dr. Alfred J. Cardall, Director of Industrial Relations, John B. Stetson Company, Philadelphia**

Arthur A. Hood, Director of Dealer Relations, Johns-Manville Sales Corporation, New York

H. D. Laidley, Manager Sales Development Department, The White Motor Company, Cleveland

R. F. Lovett, Manager of Personnel Research, The Procter & Gamble Company, Cincinnati

Wallace T. Montague, Vice President and Manager of Business Planning and Development, Norton Company, Worcester, Mass.

William Rados, Associate Director, Department of Sales and Merchandising Education, Schenley Distillers Corporation, New York; and Vice President, National Society of Sales Training Executives

SALES training pays dividends in better performance, panel members agreed, and in a good many types of business, a company cannot well compete without it.

Training, it was pointed out, gets men into sales production faster, increases their sales volume, reduces turnover among them, and reduces selling expense. If the product is technical, Mr. Montague noted, it is a foregone conclusion that training cannot be dispensed with, since the buyers look upon the salesman as a consulting engineer, and it is, naturally, impossible for him to function as such without thorough training. "We find," Mr. Montague said, "not only that a well-trained salesman obtains a larger share of the potential in his territory, but also that he is in a much better position to increase that potential."

A concrete example of the benefits of sales training was cited by Mr. Rados—an experience in the refrigeration field. The company spent, on the average, $12 each to train salesmen employed by several hundred specialty retail dealers scattered all over the country. A subsequent check-up disclosed that the dealers whose salesmen had taken part in the course were buying approximately twice as much from the distributors as comparable dealers whose salesmen had not been trained.

"A manufacturer should realize," Mr. Hood added, "that he is in an infinitely better position to set up a training program for retail salesmen than is the retailer himself. A manufacturer can afford to invest money in training personnel and in purchase of equipment because he can spread the cost over a multiplicity of sales outlets, whereas the retailer will find such an investment impractical.

"I think a manufacturer should plan to train his field organization, including his district management, his dealer executives, and retail salesmen,

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simultaneously, in joint classes, with separate sessions on exclusive problems when necessary. There is tremendous advantage, we have found, in having company men and dealer men take the same thorough training in consumer sales work."

WHO SHOULD BE TRAINED?

Panel members were further agreed that sales training should not be confined to new additions to the sales force. "When I think of training," Mr. Montague said, "I think immediately of the young men whom we are trying to make into salesmen—the sales trainees. But I think also of everyone connected directly or indirectly with the sales operation—the field men, the salesmen, the field engineer, the headquarters sales engineer, the sales supervisors, and the sales managers. We even feel that top selling management should go in for retraining along with our sales and field forces."

Nor was it felt that sales training should be given only to members of the sales force proper. Telephone operators, truck drivers, elevator operators —everyone who comes in contact with the public generally—may make or break a customer relationship, Chairman Mudge pointed out, and should receive some form of sales training, even though it will necessarily be simple.

"If the non-selling personnel who come in contact with the customers have no faith in what their company is selling," Mr. Rados said, "they are going to sabotage you through ignorance or malice. And it is interesting to note that a customer may discount what the salesman says, but consider that the delivery man, the service man, or the receptionist will give him inside information."

"I think," added Mr. Hood, "that management should take into consideration every factor in the chain of distribution between the factory door and the ultimate consumer, and train all the people who can have a bearing on production and distribution cost. We have found, for example, that training programs for wholesale salesmen and applicating contractors justify themselves through increased efficiency."

SIZE OF THE TRAINING STAFF

The size of the training staff will, of course, vary with the size of the company, and with its individual training problems.

"In the smaller company," Mr. Laidley said, "it may be necessary to assign the work to the sales manager. In the medium-sized company, it might be handled by an assistant sales manager. Where the organization is large enough, at least one man will usually devote all his time to it, and that man generally reports to the vice president in charge of sales."

Mr. Hood: We have found it advantageous to bring the executive personnel into the training sessions. For example, the credit manager can handle training in installment selling; the advertising manager can speak on advertising and sales promotion; and the various product managers may be brought in to discuss product expansion. The executives must, of course, be precoached by the trainer, and to get the best results everything they are to say should be pretty well worked out in advance.

Mr. Laidley: Did you bring men into the home office for training?

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Mr. Hood: We had a teaching staff of as many as 17 people, which traveled around the country holding training schools at central points.

Mr. Laidley: Did you say sales managers take any part?

Mr. Hood: They were on the receiving end of the training at first; but now they do a lot of training in the field.

Mr. Lovett: Our vice president in charge of sales says that the sales manager's job is 90 per cent training. Our president started developing "training consciousness" throughout the company years ago. It has steadily filtered down and has thoroughly saturated the organization.

Mr. Mudge's company, Socony-Vacuum Oil, also places the emphasis on the sales manager's part of the training. The headquarters training staff consists of two men and a secretary, who provide specialized help for the line organization.

Similarly, Mr. Montague's firm, Norton Company, has only one full-time trainer, and, like Mr. Hood's organization, utilizes the services of other executives. Sales trainees are taken on, not in batches, but one or two at a time and put through a 60-week course, necessary because of the technical nature of the company's products. Instruction is given by research men, production men, sales engineering men on the headquarters staff, the sales managers themselves, and the publicity manager.

SELECTION OF TRAINERS

"In setting up training staffs," Dr. Cardall said, "there seems to be a strong tendency on the part of many managements to make the best of what they have. Just because a salesman is not pulling his weight in sales is no sign that he will make a good training man. I admit you have to do something with him if he has been with you for a long time. But the fact remains that the training staff will make or break the success of any training program."

Fundamental to the trainer's success, Mr. Hood believes, is a knowledge of all the successful methods and tools: "He must have behind him extensive and continuous research on the problems presented by the course. He must exchange experience with those who can contribute constructively to his knowledge, and he must acquaint himself with the way people learn and be sure that the selling tools he suggests have been thoroughly tested in the field.

"It is part of the trainer's job to assure himself that the compensation plans are accurate, and to obtain the wholehearted support of the advertising, sales promotion, and sales departments in the training work, and, above all, that of top management. He must cultivate humility, tolerance, patience, persistence, and a sense of humor. They are all badly needed. And he must develop a crusading spirit and an overwhelming desire to help the company as well as the individual through developing the most and the best in the men to be trained."

"The man who is going to train," said Mr. Laidley, "must have a liking for people, and the ability to think clearly. He must be well educated, have a background in selling, and perhaps also in educational work, although the last is not absolutely essential. He must be alert, have a sense of humor, and dress reasonably well, but not too well."

"A trainer," said Mr. Rados, "is a special type of sales manager. Second,

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he should have what I call the 'vocational approach'; in other words, he should be interested in developing the kind of program that will enable salesmen to earn a living. Third, it is helpful if he has some writing or editorial ability; and fourth, he should realize the importance of research."

Which is more important to the trainer's success: knowledge of actual selling conditions in the industry or knowledge of training techniques? Panel members disagreed on this point.

"Very often," said Dr. Cardall, "the man who is himself a specialist in the field does not make a good trainer. We cannot evaluate a man's fitness for training in terms of his grasp of the subject matter.

"Suppose we are training elevator operators. I would rather have a man who is familiar with training and add a knowledge of elevators than take a man who has a real knowledge of elevators and try to add a knowledge of training.

"To put it another way, what is the most important single aspect of training? In my opinion, it is the ability to diagnose learning difficulties, which will be different for different trainees, even though a standardized package is being presented. That skill is an unusual skill, one which is developed over a period of years; but I believe that I could pack product knowledge into a matter of months."

"I disagree violently," said Chairman Mudge. "I believe just the opposite—that you can help a good elevator operator do a good teaching job."

Mr. Lovett: I agree with Mr. Mudge. I think the illustration Dr. Cardall used, moreover, is not appropriate because the skill of elevator operators is not of the order of that of sales managers.

Mr. Hood: I think instructors should be selected whenever possible from men experienced in the industry who have a flare for teaching. If you cannot find them in the company or in the industry, then you must go outside and get professionals. But teachers who lack industry experience should be required to get the feel of the industry in the actual selling field before being permitted to conduct sales training classes.

Mr. Montague: I don't see how a man can impart selling techniques unless he has been through the mill himself. I don't think he would command the salesmen's respect if he hadn't.

Dr. Cardall: Certainly he should go through the mill. But I think training ability is more important than that experience.

BUILDING THE PROGRAM

Deciding on the content of the training program is often a difficult task, since a company which has had no experience in sales training may not know how to make a start. A simple recipe for overcoming this problem was offered by Mr. Rados.

"The first training program I ever formulated," he said, "was a very simple one; it was all on two sheets of paper. You can duplicate the trick this afternoon and start a class tomorrow. On one sheet you list the benefits the customer gets from the product, and on the second the reasons given for not buying. There you have the start of a very practical course. On the one hand, you have the ammunition; on the other, a method of getting around the things which stop a salesman."

Mr. Lovett: The basis of our sales training program is a thorough job

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analysis for training purposes. I say "for training purposes" because there are all kinds of job analyses.

The method we use is simply an elaboration of Mr. Rados' "two sheets-of-paper" plan. By working with weaker men, we get a complete list of the problems that confront the salesmen—and the list is broader than mere objections to the product. By working with the more successful and observing them at work, we find the best methods of coping with the problems.

The job analyst who handles this work is a salesman with an analytical bent and a fairly high I. Q. With proper editorial assistance, he can work up a program from this material. Then his program is presented to the supervisors and district managers and others up the line for criticism, and is perfected gradually. Management serves as a board of editorial censorship and in the process it soaks up a good deal of training itself.

In developing training methods, we utilize the experiences of supervisors and field trainers. Originally they kept diaries recording ways in which they put over different points, and an analysis of those diaries provided the best training methods.

Thus our training program is pretty largely the pooled experience of our own sales organization. It is a growing body of information which can be improved upon continually.

Dr. Cardall: Variations of the diary technique work out rather well. Every time the salesman faces a problem, in the field or at the client's desk, on which he feels he needs help, he should jot it down. Analysis of such material is valuable in preparation of the program, particularly when you are starting from scratch.

Mr. Laidley: There is a tendency, as you probably know, for the salesman to discount things that come from "on high," from the boss in the home office, and research in the field helps to meet that problem. Interview your field men, your dealers, your distributors, and customers. Find out where your plan has failed in the past, what specific things they would like included in it to help them sell. I had the privilege of interviewing 100 such people in the field organization and writing a complete story of the findings. We boiled it down to ten basic points, supporting each with a quotation from the source, where we were permitted to use the name.

I want to add just one more very important point. The things we have talked about are mostly tangible things. But there are certain intangibles: You must instill in the mind of the salesman a pride in the industry he represents, a belief that he is representing a good cause. Your plan must create loyalty and belief in the salesman's opportunity and be one which recognizes the dignity of the individual.

TRAINING TECHNIQUES AND TRAINING AIDS

The proportion of the training time spent in the classroom will vary according to the company and the product, it was brought out, but most of the panel members felt classroom work should be held to a minimum.

"If there is a certain general body of facts and information," Dr. Cardall said, "obviously, the only practical way to present it is on a group basis. If there is a certain pattern running through a certain type of skill that is common to all salesmen, the group method is better.

"I believe also that there are certain things that can be done better on a

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group basis than on an individual basis. For example, I have had to discuss with salesmen the problem of halitosis. It is a lot easier to caution a group about it than to say, 'Jim, you have bad breath.' In other words, there is a best technique for every type of problem."

Mr. Montague: In the case of our technical product we feel that classroom instruction should be held to a minimum, and that the teaching should be in the field and in the laboratory. We have not found slide films particularly effective, except in the presentation of graphs, charts, diagrams, and instructions of that nature. We do believe thoroughly, however, in the use of sound motion pictures—elementary instructional films that explain the know-how of our product.

Dr. Cardall: We must find the one best method for the presentation of each type of material. For example, we have found that slide films step up retention from 20 or 30 per cent to as high as 70 per cent in the case of some types of material; but are absolutely useless in other connections.

Mr. Rados: Issuance of information is only the beginning of the process. Presentation of facts, presentation of the value of your product, the distribution of books, the showing of slide films and so on are only the beginning of the training process. Your salesmen will forget much of the information unless it is repeated. So you have to take the salesman through a second stage of the learning process, which is the stage of trial. And since a first trial often indicates that there are difficulties the salesman had not anticipated when he heard the methods unveiled by the sales manager on the platform, there must be a third step—individualization. Perhaps the sales manual recommends use of Step 1, Step 2, and Step 3. The salesman may find that in his market, or with his type of customer, or with his personality, he must use Steps 1 and 3, and leave out Step 2. Until he has actually gone through the experience of attempting to apply the new knowledge, it does not become a part of him. It is only after he has perspired and worked over it that he begins to pay attention to what the training man is trying to instill into him.

Finally, the sales manager or the training director must follow him up and see that he repeats the proper methods over and over again. The end of training, the goal we are working toward is to have the salesman habitually react in the right way in the presence of the prospect.

Mr. Lovett: Movies are too expensive for us for the benefits derived. We have found that the same amount of money spent in training trainers who work with the new salesman in the field is much more effective. However, we find slide films useful when we are going to launch a new product or a new merchandising program.

Mr. Hood: The first thing the trainer must do is to sell the work of selling as a career: Build the conviction that it offers opportunity, and give proof. Then he must inspire the trainees with the attitude, "We are going to work this out together." The trainer must convince them of his personal interest in them as individuals and of his desire to help them personally; he must build the knowledge that their instructors have been through the mill and that the training course has been formulated out in the field, and not behind a mahogany desk. Convince the trainees of the thoroughness of the preparation—that nothing which will help them has been overlooked. And provide a dictionary of all the unfamiliar terms to be used during the

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course. Then spend plenty of time on personal improvement and personality development.

Mr. Laidley: I should like to suggest a few other points: Be sure the training room is properly ventilated and that lighting is adequate. Be sure, too, that the chairman has a definite plan for the meeting so that the discussion moves from one thing to another in a logical way. And afford the trainees plenty of opportunity to take part in the meeting—frequently the chairman monopolizes the center of the stage.

COSTS

There can, of course, be few generalizations about the cost of a training program since it will vary widely with the company, the product, and the type of training. Some of the panel members, however, gave the costs incurred by their own companies.

Mr. Lovett: We have found that the cost of developing a thorough sales training program from the research on up to completion runs in the neighborhood of $15,000. This includes only staff department costs. The cost of on-the-job training of the salesman calling on the grocery trade is approximately $300 to $500 a man—including the trainer's time, the expenses for training material, and the expenses for follow-up. For technical sales work, which requires training in the factory and laboratory, the cost runs as high as $1,000 a man—sometimes more.

We found early in our training work that improper allocation of costs may hamper the program. The only costs that can be charged to the field, we feel, are the costs of that training which the sales managers realize is necessary to equip the salesmen to function satisfactorily. Where men are being trained for development purposes or for managerial posts, the cost should be charged to general administrative expense.

Mr. Montague: It costs us approximately $4,000 to train each of our technical salesmen. That includes the trainee's salary during 60-week training period, and the time of the supervisor and the other men we use as part-time instructors—laboratory men, sales engineers, and production men.

Mr. Rados: After the initial training is given, many companies follow up with a program designed for presentation to distributors and branch offices. A program of that kind cost in the past, a minimum of $6,000—$3,000 for a black-and-white, 30-minute sound slide film, $300 to $400 for a turnover chart, about $2,000 for printed, two-color, illustrated manuals, and a few hundred dollars for props and whatnot. That does not include traveling expenses or executive salaries; it is merely the cost of the minimum amount of training material and the manuals.

Dr. Cardall: I should just like to bring out the point that the cost of training the men who drop out of the course increases the cost of training those who stay in. I remember back in the golden '20's we trained three investment salesmen in order to get one, and it cost $10,000 to train the three. That illustrates the tremendous importance of selection in connection with training costs.

Mr. Laidley: I know of one company that sets up a reserve of $2,500 per man, and then charges the direct expenses against that reserve account, and we ourselves figure that it costs somewhere between $1,000 and $2,000

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to train a man. But failure to train involves costs also, even though they don't always show up on the profit and loss statement—lost customers, disgruntled customers, and general neglect of the company's interest.

Mr. Hood: I think we can say that the cost of sales training is infinitesimal compared with the cost of not training.

Mr. Lovett: A good way to prove the value of training programs is to train every other man—and then check the results.

Dr. Cardall: In the future costs will be inspected more carefully than they have been in the past. Unless the sales training program is thoroughly integrated into our sales process, it may go by the board. Let's be sure that it is sound and basic, not mere frosting. The best way to insure that it will be maintained is to keep it growing—and keep it on the ball.

Chairman Mudge: We must be careful to keep the training program from becoming unpopular because it is unwieldy. When there is a question in my mind as to what should be included, I go to the sales management and ask: "What do you want your men to do?" And then I say, "Let's limit the training to the skills, the ability, and the knowledge you want them to have."

FOLLOW-UP

Perhaps the best form of follow-up, Mr. Rados pointed out, is by periodic conferences. "This method," he said, "is not flashy but it's sound. You sit a group of eight or ten men around a table and discuss one problem at a time. If you have never tried it, you may be surprised at the results. Suppose you discuss how to sell the high-priced items. The men may give no evidence of having gained anything from the meeting, but later they set out to prove either that the method suggested does work or that their own method is much better. In either case they will increase sales."

Other important parts of the follow-up are, of course, the sales training manual and bulletins from the home office. Members were agreed that manuals should be in loose-leaf form, and kept strictly up-to-date since one piece of useless advice can make a salesman doubt the efficacy of the entire book.

The real follow-up, however, it was brought out, is achieved by making training an inherent part of the job, not something extra which is given at stated intervals. Chairman Mudge summed up the findings of the panel on this point as follows: "The need for training is shown by sales figures, profit figures, customer relations, complaints. Where individuals or areas are slipping, let us see what we can do to help them—whether by formal or informal training."

QUESTIONS AND ANSWERS

Question: Is there any average age at which a salesman begins to slip?

Mr. Hood: In the building industry we find that older men make very successful salesmen. There is something about the selling of new homes and farm buildings that requires a background of practical experience.

Mr. Rados: I should say that when a man begins to slip it is somewhat of a reflection on his manager.

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Question: How long should each field training contact last? Are one-day contacts best? How are intervals between contacts determined?

Mr. Lovett: We like to spend the first full week training the man in the field. Today that can sometimes be cut down to three or four days, but most managers consider the full week best.

After the initial training there is a period of two or three weeks during which the man covers his territory alone and digests what he has been taught. Then the supervisor works with him again for two days and checks to see whether the ideas have stuck and how his skill has improved, brushes him up on some of the points, demonstrates methods again when necessary, and corrects faults. Three days of advanced training come during the sixth week. This too is followed up in two or three weeks. Additional training is given by the supervisor on each succeeding field contact—such contacts being made approximately every 30 days.

Dr. Cardall: The normal curve of forgetting indicates that there should be a follow-up at the end of certain intervals. For example, a follow-up every three weeks may not be so effective as follow-up at the end of one, three, ten and 30 weeks. The interval should be short at first and gradually lengthen.

Question: What is the best method of providing for a continual flow of information on field conditions?

Mr. Laidley: If by field conditions, the questioner means the productivity of the salesman, I think it is advantageous to have the man keep a record of each call, of what he said and did. He may not necessarily show the card to the boss, but when he decides to call on the same account again, the record is valuable to him.

Dr. Cardall: Some firms use a system of weekly quiz sheets to keep the boys on their toes and insure that they are absorbing the stuff from the home office.

Question: Do you believe the time is right for a five-meeting, ten-hour course in postwar training methods for supervisory groups? Or should such a course be postponed until after the end of the European war?

Chairman Mudge: I don't know whether the questioner is thinking of the Training Within Industry's ten-hour courses or not, but I should like to say that a number of marketing organizations are using TWI principles in training salesmen. The Job Instructor Training program helps the sales supervisor or manager pass on his knowledge more effectively.

Question: How large a staff would be needed to handle 300 salesmen operating from 10 branch offices, with a branch manager at each location?

Mr. Rados: It is a little difficult to make a categorical decision, of course, but I should say that a team of four persons would be ideal—a training director with three assistants, one a writer, the second a research man, and the third a traveling or field training supervisor.

Question: What part should the branch manager play in the training program?

Mr. Rados: You have to convince the branch managers that the home

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office training plan is valuable to them; otherwise, they will soon untrain the men again. The branch manager is the key man in his own territory. His cooperation is vital because the salesmen in the field take their cue from their boss.

Question: Should the personnel department coordinate and direct all training programs?

Mr. Hood: Yes, if it is competent to do so.

Mr. Montague: In our case, training of factory supervisors and workers has been carried out by a trainer on the works manager's staff; training of office employees by the office manager's staff. Our sales activities are divided into two main classifications, the direct activities of sales operating and the indirect or staff activities of business planning and development. These latter activities include such functions as publicity, market research, business relations, product planning, and sales training. Sales training is under a training supervisor who is a former salesman, and he works in very close cooperation with the operating sales managers and the manager of sales engineering. He modifies the type and extent of the sales training to meet the requirements of each new trainee. This arrangement seems to have worked well in our case.

Mr. Lovett: Sales training in Procter & Gamble is the responsibility of the sales department. However, maintenance of manuals, programs, and the training of trainees is the personnel research department's job. The training program must be someone's baby; there should be someone who continually follows it, who will fight for it, and insist on keeping it up to date.

Question: How important is knowledge of the factory to a salesman?

Dr. Cardall: If the selling involves 90 per cent technical knowledge and 10 per cent sales ability, it is very important. If it involves 10 per cent technical knowledge and 90 per cent sales ability, don't have the white collar men messing up your plant.

Mr. Laidley: Some of our best men—our leaders and officers—went into the factory some 15 years ago under a program that lasted nine months. Usually, we think, our future policy will be to send the young men just out of college to the factory for six months' work there, while older men who have proved their selling ability in some other field will have perhaps two weeks of factory work to get a picture of what goes on.

Mr. Rados: If you must take your man through the factory, have him conducted by a sales-minded person. If your salesmen are too engineering-minded, it is questionable whether they can ever become sales-minded.

Question: Isn't training secondary to selection?

Dr. Cardall: Training and selection are like two horses dragging a cart; it is hard to say which is more important. But I believe that selection has far greater effect, for poor material can never become really successful, no matter what training you provide.

Mr. Lovett: If I had to choose between selection and training, I would not hesitate a minute. I'd take training every time. I believe the average man's potentialities are far greater than any of us have ever realized. However, we don't have to choose; we can do the best possible selection job we are capable of; and then give the best training we can devise.

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Dr. Cardall: Skill is the result of a simple arithmetical formula—aptitude plus training. I grant that a little aptitude plus a terrific amount of training may result in mediocre skill, but we want to get the maximum result from the formula.

Mr. Rados: There are just not enough natural-born salesmen to go around. If you want to build the best sales organization in your industry, do the best job of selection, training, supervision, and compensation that you can. Then you will have four wheels on your wagon instead of one.

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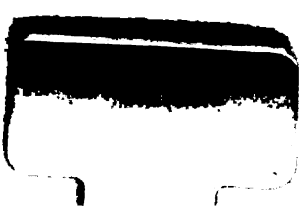

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